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February 1991 (First of Two February Issues)

THE STATE OF THE STATES

Introduction: The governors didn't have a common theme in their inauguration and state-of-the-state messages this year. Most of them avoided talk of taxes and details of budget cutting -- choosing only to emphasize austerity, doing more with less, and living within available resources. This cut off discussion of expensive initiatives such as state versions of universal health care, substantial improvements in education through costly measures like smaller class sizes, or major expansion of state programs for children. The state-of-the-state message, particularly in states with separate budget messages, is the vehicle for stating legislative initiatives and exercising leadership, so it wasn't generally the vehicle for describing cuts.

The State Of The State: Governors, particularly in the East, had discouraging words about the state of their states. Governor McKernan (R-ME) commented, "There have been few times in the history of this state when the dual threats of war and a faltering economy have so dramatically and precipitously affected our lives."

A common pattern was to couple mention of past and current problems with an upbeat theme for the future. After indicating the months ahead might be more difficult than any since the Depression, Governor Cuomo (D-NY) covered the theme in one sentence: "But this state has overcome fires and floods and Depression and wars, always bringing us to a higher ground." Governor Wilson (R-CA) opened his administration this way:

> Neither drought nor freeze will stop us. We will recover. Not war, not recession. We will triumph in the end. Not a 40% high school dropout rate. We will keep our kids in school and teach them to compete and win. It will take time and discipline, but our course is clear. We will not suffer the future, we will shape it.

Governor Florio (D-NJ) defended last year's tax increases -- "We made choices others are just starting to face up to." He asserted, "In 1991, we're the strongest state in the region." Governor Thompson (R-WI) talked of a Wisconsin that outshines other states.

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The Language of Austerity: The governors asked legislators and the public to buckle down to the business of sacrifice. Governor Weicker (I-CT) said, "What I seek is your grit and ingenuity -- your resolve to accept sacrifices long postponed to gain achievements long denied." Governor Cuomo talked of a "new austerity" that must be evenly spread. He advocated "new thinking instead of new spending." On how cuts will be allocated, he said, "there will be no sacred cows, and there will be no sacrificial lambs."

Governor Wilder (D-VA) said simply, "Clearly, now is not the time to initiate new programs or to expand discretionary spending on existing programs." Governor Weld (R-MA) emphasized not just balancing the budget for a single fiscal year but a multi-year perspective involving budget cutting "bound to offend some and anger others." Governor Carlson (R-MN) said, "We can no longer look to government to do all." Governor Chiles (I-FL) commented simply, "We're out of money." Governor Miller (D-GA) told the combined appropriations committees of the Georgia legislature, "It's belt-tightening time."

In a message not everyone would necessarily agree with, Governor Sundlun (R-RI) said, "I do not fear unpopularity because better fiscal management is more important than political popularity."

Economic Development: Governor Weicker discussed stimulating the economy to "rekindle business" and "save and expand jobs." Governor Florio offered a program, "New Jersey Works," designed to create additional construction jobs by public works and loans to first time homebuyers. The construction money is money from existing sources -- state and federal transportation funds plus spending of the Port Authority of New York and New Jersey. Governor Gregg (R-NH) talked about capital shortages from banking problems, announced an attempt to expand public works spending, and offered the creation of a new public-private venture capital fund.

Rejecting some prior development programs in his state, Governor Engler (R-MI) said, "No bureaucratic decision as to who should be an economic winner or loser will ever substitute for the decisions made in the marketplace." Endorsing continued public works spending, Governor Schaefer (D-MD) asked, "If the state won't invest in Maryland, how can we expect businesses to?"

Program Recommendations: There were few recommendations of new programs. Major new education reform proposals weren't on governors' agendas, except in Tennessee. Discussion of expanded health care for the indigent consisted primarily of announcing expansions of coverage mandated by federal law. Universal health care proposals produced by blue ribbon committees in many states remain on the shelf, generally unmentioned in the messages. Governor Cuomo discussed universal health care, but said New York couldn't afford to act on the subject.

Instead of costly new programs, the governors and their speechwriters concentrated on previously planned expansions of state activity, such as the continuing implementation of education quality programs adopted on a multi-year basis in the past. They also discussed federally financed activities, like the use of new federal Headstart funds and low-budget state initiatives.

Entrepreneurial Government: Governor Weld talked about "fewer rules and more results" which he called his definition of "entrepreneurial government." This was to replace "bureaucracies 50 years out of date, sluggish and centralized, in which hierarchies rule and orders are issued from the top in a power pyramid." He said such a system might have worked for an economy of shoe manufacturers but that it could impede growth in "the information-rich, knowledge-intensive society of the 1990s."

Prevention: For California policy, Governor Wilson used a theme of substituting prevention for remediation -- "a vision of government that is truly as uncomplicated as the old adage that an ounce of prevention is worth a pound of cure." He mentioned examples -- prenatal care rather than neonatal care, drug education rather than drug treatment, preventing learning disorders rather than compensatory education, preventing dropouts rather than counseling teen mothers, and preventing crime rather than punishing it.

Tax Policy: The governors generally saved any tax-increasing ideas for their budget messages. But those who support cutting taxes were eager to talk about it. Governor Engler (R-Mich) said the people demand a tax cut and promised, "We will cut taxes." Those not proposing tax increases yet used language similar to Governor Weicker (who may be proposing an income tax for Connecticut): "I have a feeling the people of this state would rather take their licks and be done with it than be nibbled to death by political solicitousness." Some governors rejected tax increases, as Governor Chiles did. He argued that tax reform might be appropriate later, but that first Florida officials should gain voter confidence in state government by such actions as ethics reform. He hinted that his idea of reform involved a broader base for the sales tax.

Federal Policy: Governor Cuomo repeated his constant theme that the federal government has withdrawn from its major social obligations for dealing with drugs, homelessness, crime, and AIDS. He concluded, "The cumulative weight of this decade-long shift of the burden, combined with shrinking revenues as a result of the national recession, is crushing many states, including New York." Governor Wilder promised, "The irresponsible fiscal fantasies of Washington will not take root in Virginia." He said national economic recovery would come faster if Washington "would get its fiscal house in order." Governor Chiles commented, "When I left Washington, the federal government was beached on a bloated and inefficient bureaucracy, totally unresponsive to the needs of the people." Governor Miller said

in the 1980s the federal government shifted costs to states that prosperity made it possible for them to absorb. But now, he said the days of eating "rainbow stew" were over. Governor Ashcroft (R-MO) said 85% of Missouri's new revenues were needed just to cover costs associated with mandates from courts and Congress -- a situation he described as a "modern mutation of federalism."

Personal Responsibility: Without talking about the 1,000 points of light used by the President in a similar context, some governors did stress individual effort. For example, Governor Engler called upon Michigan citizens to accept personal responsibility for improving their communities, just as they had done in the early settlement of the state. Governor Chiles commented, "Programs don't work, people work." He suggested that "people are better than the system that is governing them." Suggesting that neither Washington nor Tallahassee offered solutions to all problems, he said he was volunteering to be a mentor to an at-risk student and to teach this summer.

BUDGET BALANCING STRATEGIES

Introduction: In his state-of-the-state message, Iowa's Governor Branstad delivered a succinct summary of the view of many state elected officials: "In a nutshell, we're spending too much money."

In most states, there is an imbalance in current budgets and projected budgets for FY 1992. Many governors and legislators don't want to raise taxes. As the National Governors' Association executive director told the press after describing state shortfalls, "I think you're going to see taxes substantially off the table next year." The governors' state-of-the-state and budget messages suggest most of them want to avoid tax increases. But this preference doesn't mean they will be avoided. Whether tax increases will appear as a viable policy late in the legislative sessions depends in part on how well the tax-avoiding budget-cutting strategies work.

Michigan's Dilemma As An Example: The debates now taking place in the Michigan legislature are indicative of the choices yet to be made in many of the states. Michigan's past policy choices and current economic conditions are carrying the state toward a major tax increase. Michigan's politics are steering the state far away from one. The two sets of preferences had to collide. They have.

Michigan has opted for relatively expensive state policies in relation to its economic capacity. Its spending per pupil is above average, its standards for participation in welfare programs relatively generous, and its costs of Medicaid and AFDC well above average. The state has been maintaining these policies during years when its major industry, vehicle manufacturing, has been losing market share both to foreign suppliers and other parts of the country. Its economic situation was relatively poor even before the onset of recession. The

state maintained its spending in part by shrinking the percentage of public school costs it paid, creating widespread opposition to property tax burdens.

In the pre-election FY 1991 budget, both the incumbent governor seeking reelection and the Senate president working to get the job adamantly maintained a no-new-tax posture. The result was a budget that probably wasn't balanced when enacted, as indicated by a budgeted reduction in spending for Medicaid while similarly situated states were anticipating double-digit increases.

Immediately after the election, the legislature recognized the problems. One step was to make appropriations more realistic by adding $340 million in supplemental appropriations and restoring some spending previously vetoed by the governor. This, of course, threw the budget further out of balance. Then the legislature adopted a plan of cuts. It protected public school aid, higher education (with only a 1% cut), and other items like debt service. Everything else was cut over 9%, which would swell to 12% by the time the new governor was inaugurated and had a chance to make implementing recommendations. If implemented and combined with certain accounting changes, like converting certain tax refunds to grants and presumably paying them later, the changes would bring FY 1991 into at least theoretical balance.

In January, the legislature began to face the realities of implementing the cuts. One major issue being debated is assistance programs for the poor. One choice, being urged by the Engler Administration, is elimination of the general assistance program. It provides cash assistance to 125,000 persons who aren't eligible for programs with federal cost sharing, for example, for adults under 65 without minor children. The other alternative is to cut general assistance less or not at all and reduce the state spending for AFDC and Medicaid, which also reduces the federal match. Some argued that the sudden withdrawal of state funds would force the state out of the Medicaid program entirely because it would be violating federal requirements.

Some legislators are looking for ways to save the social service spending, starting with using up the state's rainy day fund. Then there would be direct and indirect tax increases, such as cutting an existing property tax relief program and broadening the base of the sales tax to services. Meanwhile, the governor is seeking ways to implement his campaign pledge to cut property taxes. Doing so while maintaining spending would presumably require new local non-property taxes or the increase in the state sales tax presented to voters (and rejected by them) several years ago. But cutting property taxes could also mean preventing future increases of the magnitude that would otherwise occur, so the governor has proposed limits to property tax increases as well as a complex revision in assessment rules.

Pennsylvania Budget-Balancing Measures: After successfully campaigning on the basis of having avoided tax increases, Pennsylvania's Governor Casey announced in December that massive cuts would be required to balance the current year budget. He announced budget gap-closing measures totalling $731 million. Just under 40% of those were reductions in spending such as cutting the state's workforce by 2,000 persons and cutting the higher education allocation by 3.5%. The other items included: (1) spending money from other accounts (the rainy day fund and a surplus from past appropriations for legislative operations), (2) improving tax collections, (3) deferring spending by delaying when employees are paid, and (4) a plan that, in effect, obtains contributions from hospitals to provide the state's match of federal Medicaid funds.

Budget-Balancing Measures Nationwide: If budgets are out of balance, if balance is required by state constitutions and statutes, and if tax increases are ruled out, it would seem to follow that spending must be cut. But significant spending cuts are difficult. So there is an understandably diligent search for ways to balance budgets without raising taxes or cutting spending. The result shows in a recent survey of state actions to close budget gaps shown as Table 1.

Table 1: State Strategies To Close FY 1991 Budget Gaps

Gap-Closing Strategy	Number Of States
Hiring And Travel Freezes	26
Selective Reductions Of Particular Programs	22
Across-The-Board Cuts	16
Deferred Spending	15
Layoffs	14
Rainy Day Funds	12
Internal Borrowing Or Fund Shifts	12
Furloughs	9
Reduced Or Delayed Pension Contributions	6
Revenue Or Tax Increases	4
External Borrowing Or Bonding	4

Revenue Increases: Many of the listed strategies don't cut spending at all. They simply tap new sources of revenue to finance the spending. "Revenue Or Tax Increases" clearly do this, whether the result is called a fee increase or a tax increase. Other mechanisms simply draw money from another source to finance spending. With "Rainy Day Funds" and "Internal Borrowing or Fund Shifts," the money comes from another state source. With "External Borrowing Or Bonding," it comes from the securities market.

Because attention is generally focused on state general funds, it is easy for the media and public to confuse these budget balancing measures with spending reductions. For example, considerable attention

has gone to the large budget deficit in Virginia and the governor's resolve to handle it without new taxes. Part of the method involves funding shifts. For example, lottery proceeds are being shifted from special purposes like university construction to supporting the budget. The construction may be financed by bonding and/or the use of yet another state fund. Some states have considerable capital outlay that can be shifted to bonding, an approach that has helped Mississippi and Texas expand spending over the last several years.

Two major targets of state budget cuts -- aid to local government and support of higher education -- have an element of substituting revenues for cuts. However, how much of a cut will be offset by higher revenue from tuition and fees or local taxes often isn't known when the state cuts are made.

A special case of increasing revenues comes from the sale of government assets. In some cases, the government simply leases back the asset. This form of lease-purchase differs little from outright borrowing in economic impacts. West Virginia has sold its state liquor monopoly as franchises to operate individual liquor stores, with about a $20 million one-time gain in FY 1991 from the sale. Virginia's governor wants to sell the state's historical ownership in a private railroad. New Jersey's governor is proposing selling some state roads to the turnpike authority.

Spending Deferrals: The categories in Table 1 of "Deferred Spending" and "Reduced Or Delayed Pension Contributions" only reflect movement of spending from one fiscal year to another. With pension obligations to employees unchanged, deferring the state contribution to the pension fund merely delays the outlay. A common non-personnel expense to be deferred is paying Medicaid bills. This was one of the ways Massachusetts finances got out of hand, but isn't uncommon elsewhere. For example, the current Illinois budget was balanced using delayed payments of medical bills. Other items frequently delayed are payments to local government and tax refund payments. The new budget for Rhode Island, for example, "saves" a month of school aid payments by shifting them to a later date.

A special case of deferral is paying employees by slipping the payroll date -- for example, paying employees two weeks after their work rather than one week. The "lag payroll" New York adopted in December is the ultimate deferral. Employees don't get one week's pay until they retire, die, or quit.

Appointing A Committee: Many of the new governors have appointed outside groups to examine state spending and programs. New Jersey's governor did this last year. Georgia's governor is doing it this year. So is Florida's with a new group that will, in the words of the governor:

> ... explore and provide the road map for right-sizing our government, to provide more competition in our governmental processes, to show us how to measure outcomes, to give money on the basis of measured results rather than on inputs, so that we can properly evaluate whether state government is providing services that result in customer satisfaction. And the customer for us has got to be you, the taxpayer.

Reforming The Budget Process: The states have not matched the federal propensity to accompany nearly every unbalanced budget with a package of procedural reforms designed to avoid an unbalanced budget the following year. But budget reform proposals are common. In New York, the governor and some legislative leaders believe reform is moving the start of the fiscal year from April 1 to July 1. In Georgia, the chairman of the House Appropriations Committee has a reform bill to move the start of the fiscal year from July 1 to April 1. Constantly, there are proposals to reform how executive budgets are formulated (e.g., zero-base budgeting). There are also proposals to reform the format and detail of appropriations bills and the process and timing of their legislative consideration. For example, in Massachusetts, the new governor wants to end the heavy orientation of the state's budget to detailed line items.

CUTTING STATE SPENDING

Looking For Real Spending Cuts: Deferring spending and getting extra money to finance, rather than cutting, spending, account for six of the 11 budget balancing measures listed on Table 1. In the remaining five measures, state officials are working off a tried and true list of budget-balancing devices. In the process, they are counting on many cost savings that past state experience suggests often won't materialize. If that assertion is true, there will be more, and larger, state tax increases this year than are currently being discussed.

Cuts With Unspecified Programmatic Impact: A common view of citizens and many elected officials is that state budgets have waste, reflect mismanagement, contain fat, and include low priority programs. The difficulty comes in determining which appropriations are the culprits. Many positions on state budgets finesse this question. Examples: (1) ceilings on state taxes or a general position that they shouldn't be increased and (2) constitutional or statutory limits on state spending. These devices are of no use to a governor seeking to balance a budget in mid-year by administrative action. But there are parallel devices which can be used to reflect an intent to cut without making decisions among programs. The across-the-board cut is the clearest example.

Across-The-Board Cuts: Across-the-board cuts are conceptually designed so that the governor doesn't set priorities among programs -- instead applying the same percentage reduction to each. The only inherent exception that is generally recognized is debt service payments under existing bond contracts. However, in many states, there have been up-front exceptions for school aid, for agencies (e.g., corrections) under court order, and because of policy decisions to apply a lower percentage to some activities than others. The Michigan cut described above is an example of an across-the-board cut with many exceptions. The exceptions don't obviate the efficiency of the across-the-board cuts where they apply, but do reduce the persuasiveness of the cuts to those being asked to implement them and, of course, reduce the dollar savings that can be produced by any percentage reduction.

The main problem with the across-the-board cut is that it isn't necessarily implemented. Massachusetts was constantly announcing such cuts in 1989 and 1990 without reducing the budget. As is usually the case, the cuts were actually directions from the governor to agency heads to make proposals to achieve the necessary reductions. Often agencies not subject to the administrative control of the governor, such as those headed by independent elected officials like attorneys general and secretaries of state plus the courts, simply don't comply. Agency heads appointed by the governor don't always comply or comply with cuts the governor finds unacceptable, as happened with social service programs in Massachusetts. The process of negotiations takes enough time so that the cuts, even if made, don't have the fiscal impact originally anticipated.

Personnel Reductions: Three of the cut mechanisms shown on Table 1 focus on reducing the costs of state personnel. These are predicated on the assumption that the best area for cost cutting is direct state operations. Excluded are state-paid or partly state-paid personnel working for universities, public school systems, private clinics, and other contractors of the state. One approach is simply to reduce the number of state personnel quickly by layoffs. A second approach avoids layoff but reduces the work time and pay of all employees by mandatory furloughs. A third approach reduces the state workforce by not hiring workers to replace those that leave, the hiring freeze.

The difficulty with all three policies is that they tend to be eroded by exceptions -- each apparently meritorious, but together eroding the cost savings of the policy. The problems become clear when exactly who works for state government is considered. Table 2 shows the employment in October of 1990 of Illinois -- a typical state in spending patterns though larger (11.5 million people) than most.

Table 2: Illinois State Government Employment, October 1990

CATEGORY/Agency	Number of Employees	Percent of Total
INDEPENDENT CONSTITUTIONAL OFFICES	10,011	12.9%
Sec. of State (inc. vehicle licensing)	4,581	
Courts	2,145	
Comptroller	452	
Treasurer	147	
Attorney General	732	
Board Of Education	943	
Other State Officers	1,011	
AGENCIES OUTSIDE THE GENERAL FUND	13,156	17.0
Employment Security	2,912	
Transportation	8,369	
Toll Highway Authority	1,875	
AGENCIES MANAGING INSTITUTIONS	28,566	36.8
Mental Health	13,761	
Corrections	11,600	
Children & Family Services	3,205	
REVENUE-RAISING AGENCIES	3,406	4.4
Lottery	328	
Revenue (tax collections)	3,078	
OTHER AGENCIES	22,437	28.9
Agriculture (inc. regulation)	723	
Commerce and Community Affairs	711	
Central Management (inc. Personnel)	1,328	
Conservation (parks)	1,566	
Veterans Affairs	878	
State Police	3,642	
Public Aid (welfare)	9,934	
Public Health	1,321	
Rehabilitation Services	2,054	
Others Not Listed Separately	4,929	
TOTAL	77,576	100

Exceptions To Personnel Reductions: The erosion of the concepts of furloughs, layoffs, and hiring freezes is easily understood with reference to Illinois staffing as shown in Table 2. The major cases fall in these overlapping categories.

Revenue Generators: If budget-balancing is the objective, then it is counterproductive to eliminate personnel who bring in revenue. This argues for exempting 4.4% of Illinois employment in the lottery and tax-collecting agencies, plus personnel in other agencies who collect driver's license fees, vehicle registration, liquor taxes, insurance taxes, and generate fees from regulation that exceed their costs. This argument can be extended to the investment activities of state treasurers, collection activities of attorneys general, much of the court system, and more.

Special Funds: Some 17% of Illinois employees are in agencies where savings from laying them off, furloughs, or hiring freezes would reduce spending in some special fund without directly helping the general fund. The toll highway authority lives from tolls, the transportation agency lives primarily from earmarked federal highway aid and state gasoline taxes, and the employment security administration lives on federal aid and earmarked Unemployment Compensation taxes. Also in this category are those paid by smaller earmarked funds such as 100% federally funded positions and fish and game agencies.

Independent Offices: In Illinois, 13% of employment is under the control of constitutional officials, other than the governor and lieutenant governor. These officers do not need to respond to administrative decisions by governors and often participate in austerity measures only in a token fashion.

Institutions: While not all the employees of the three Illinois institutional agencies shown in Table 2 are working in institutions, many are. Employment in those agencies consists primarily of the lower paid employees (e.g., food service workers and prison guards) whose positions are most affected by hiring freezes because of high turnover. In many of these positions, activities are controlled by rigid staffing ratios effective 24 hours a day -- two guards per prison wing plus one supervisor for three wings or one mental health attendant per 30 patients. Unless they can cause changes in these ratios, governors and budget officers will generally approve exceptions to hiring freezes to maintain the ratios. Policies that reduce employment but don't reduce the ratios increase cost because they require that posts be manned by personnel working overtime.

Other Situations: There are other reasons why many exceptions are granted to hiring freezes and general layoff guidelines. Examples: (1) staffing required by court orders and accrediting standards, (2) replacements in one worker-one job situations like the independent board with one secretary or the park with a single naturalist, (3) political considerations, such as keeping the decentralized Illinois veterans offices open, and (4) priorities, such as not laying off the state police personnel associated with drug enforcement.

CUTTING THE MASSACHUSETTS BUDGET

Introduction: The lack of consensus on the appropriate size of a state budget is about as high in Massachusetts as in any state. During 1989 and 1990, the legislature was adopting tax increases at the same time that a major taxpayer group was trying to roll back previous tax levels. In the 1990 election, the voters made three decisions that weren't entirely consistent. They: (1) adopted a measure requiring the state to devote a fixed percentage of revenue and revenue growth to local government aid, (2) rejected the proposition to roll back taxes, and (3) elected the gubernatorial candidate who supported the rollback. Trying to assess whether the state spends too much has preoccupied various task forces and recently gave rise to a detailed report by the Federal Reserve Bank of Boston.

The Search For Cuts: The report concludes that the average citizen sees little of state government spending because it goes to local aid (where its effects are perceived as local spending) and to the minority of citizens affected by income-tested programs like Medicaid. As a result, it suggests the dialogue about state spending is preoccupied with "waste." While conceding there may be some (e.g., in excessive numbers of universities), it argues that the big money is elsewhere, so:

> The conclusion that emerges from this survey of state government expenditures is that, for the most part, the Commonwealth has been spending revenues on activities that many, if not most, voters would consider worthwhile. The difficulty is that, while strong revenue growth during the prosperous 1980s permitted the state to spend liberally while taxing conservatively, the economy has slowed and these divergent policies toward spending and taxes can no longer persist.

The report doesn't encourage major spending cuts. It argues that while the state could save two-thirds of its Medicaid budget by eliminating optional benefits, the cuts would be "drastic" and some costs would rebound in other public programs without the federal Medicaid cost sharing. Welfare benefits are higher than in most states but provide "only a modest standard of living." The report mentions possible savings in child support enforcement, but the state's record is better than most states. It advocates savings through preparing welfare parents for jobs, but suggests the current (ET) program does not appear to have reduced welfare caseloads. On state-delivered social services, the recommendations aren't very specific: "redundancies must be eliminated, coordination improved, controls tightened, and priorities established."

Nor are many savings offered in state employee costs, other than higher deductibles and co-payments and possible use of preferred provider organizations for health insurance. Cash compensation is

found reasonable in relation to other states, as is the level of staffing. Debt service, though growing, is also found to be reasonable, with indexed bonds offered as a way to deal with the cost escalation.

Local aid is offered as a potential area for reconsideration, with more possible emphasis on equalization among jurisdictions with differing wealth and less on reducing pressures on the property tax. Local option sales and income taxes are rejected for two reasons: (1) the aggravation of existing fiscal disparities among large numbers of small jurisdictions and (2) the ease of crossing borders to a jurisdiction without a tax.

Deferring capital investment is rejected as a strategy. But the Bank's staff urges priority setting, putting into competition not only the state's own capital spending plans but also those of the many independent state authorities. It cites with approval the authority of New Jersey's governor to veto authority capital spending. Kentucky has adopted a comparable capital planning procedure for dealing with authorities.

Medicaid: Using unpublished federal data, the Bank's staff calculated Medicaid recipients as a percentage of the state's entire poverty population for selected states. The results appear in Table 3.

Table 3: Medicaid Recipients As Percent Of Poverty Population, FY 1989

State	Percent	State	Percent	State	Percent
Massachusetts	111.9%	New York	82.6%	California	67.8%
Connecticut	97.8	Maryland	80.5	Illinois	59.6
Vermont	92.3	Washington	76.7	New Hampshire	58.1
Rhode Island	92.2	Pennsylvania	73.7	North Carolina	53.0
Maine	90.5	New Jersey	72.5	Texas	43.0
Michigan	83.7	**United States**	**67.8**		

But the report finds fault with various potential limitations on the population served by the state's Medicaid system. So it turns to other ways to reduce costs, and finds problems with most of them. Instead, it concludes:

> Because Medicaid operates as part of the state's high-cost health care system, it cannot be reformed in isolation. Achieving ongoing savings within Medicaid requires curing cost increases throughout the entire health care system.

Massachusetts Revenues: The chapter on revenues expresses considerable concern with volatility of revenues, though it finds the state's revenues no more prone to fluctuation than the states used for comparison. The flat rate income tax leads to stability, compared with a graduated one. But the high reliance on a corporate income tax and a

sales tax with necessities exemptions (e.g., food, medicine, and utilities) make for greater volatility. All things considered, state revenue will grow about as fast as personal income in the 1990s, but local revenue will grow more slowly. Higher user fees and an extension of sales tax to necessities would reduce volatility, but also reduce the progressivity of the state's tax structure.

The report's assessment of spending pressures and of state and local revenues from existing taxes suggests the possibility of a structural deficit. With the possible revision of state aid to local government, the problem would be concentrated in local government. The suggested relief takes the form of relaxing the Proposition 2 1/2 property tax limits.

Mental Retardation Programs: A separate study on Massachusetts spending is by Edward Moscovitch, a former Massachusetts budget officer. He assesses the state's programs in comparison primarily with Michigan and Minnesota. The 100-page study concludes the state is out of step with other states primarily because it has done less to take people out of state residential institutions and put them in the community. To make the problem more expensive, Massachusetts spends much more than other states on those people who are in institutions. Part of the problem, Moscovitch says, was a bad decision to enter into a judicial consent decree that governs conduct of the residential program. He proposes more use of community care, with savings shared by the taxpayer and community programs. But he comments that "the savings cannot be accomplished overnight and cannot be achieved without overcoming serious political and legal obstacles." In his words, his plan "takes as its starting point the needs of the people served and not the priorities of legislators, public employees, or program advocates."

Moscovitch had to do some calculations to translate generally available data on mental retardation budgets into per capita and per resident terms, but the result shows the potential of such interstate contrasts. Table 4 reflects key elements of one of his tables comparing Massachusetts with Michigan, Minnesota, Wisconsin, New Jersey, and Connecticut.

Table 4: Selective Comparisons Of Retardation Programs, FY 1988

Comparative Measure	MA	MI	MN	WI	NJ	CT
Total Cost Per Capita ($)	104	51	77	48	62	119
Percent Federal (%)	28	34	48	34	31	19
MR Residents in State Inst. (%)	40	19	17	20	56	44
Cost/Resident, State Inst. ($000)	100	81	60	52	48	68

Avoiding a consent decree like the one in Massachusetts and the one affecting its correctional system has been a major consideration for New Mexico. Its litigation on the subject began in 1987 and recently resulted in a federal district court decision that may be appealed. Even if it accepts the decision, it will have considerable flexibility to close its residential retardation facilities, although there is legislative opposition to doing so.

Institutional Scale-Backs And Closings: In both mental health and mental retardation (developmental disability), there has been a shift in professional opinion away from keeping people in institutions for long periods. For therapeutic and humane reasons, there is interest by professionals and some advocacy groups in community programs. But some states have been slower than others to reduce their institutional populations, even though substantial savings can result from doing so even after using some additional money for community programs. The obvious current need for austerity has given impetus to some closing proposals. Virginia's layoffs are concentrated on such institutions. Connecticut's governor has proposed eliminating 180 employees at a Department of Mental Retardation training school and a recent report on how to save money in Connecticut recommends it be closed. Maryland's governor's proposals include closing a retardation institution. In a related action, Pennsylvania's governor has recommended closing several hospitals.

COMPARING EMPLOYEE BENEFITS

Introduction: Employee pay represents a significant portion of state costs. That fact and the obvious employee interest in the subject give rise to many pay comparisons, such as those appearing in Issue 24. However, the pay appearing on an employee's pay stub and W-2 statement is by no means a complete reflection of state employee cost.

Most of the emphasis of the FY 1991 state austerity programs has been on eliminating employees (e.g., hiring freezes and layoffs) or implicitly cutting their pay (by mandatory furloughs) rather than on non-wage elements of compensation. But some attention is focusing on employee benefits. For example, a Connecticut commission on cost savings recently recommended that the state pay 80% rather than 100% of health benefits and reconsider the 35-hour work week. Reducing the state's cost increase for existing health plans was a part of the Washington governor's budget recommendations and will probably be included in many others.

Calculating Per Hour Costs: The actual employer costs for a state employee are indicated by the calculation shown in Table 5. The base pay number of $27,516 is the average pay of state and local workers in October 1989. The remaining calculations are approximations.

Table 5: Calculation of Per Hour Costs Of State Employee

Basis Of Calculation	Amount	Totals
Base Annual Salary	$27,515	
Payroll Tax Items (FICA, WC, and UC)	2,725	
Employer State Pension	2,200	
Employer Health Insurance	1,560	
Other Funded Benefits (e.g., life ins.)	300	
TOTAL, State Government Outlay		$34,300
Total Hours (40/week x 52 weeks)	2,080	
Minus Annual Leave	-146	
Minus Sick Leave	-107	
Minus Personal Leave	-8	
Minus Holidays	-89	
Minus Workweek Under 40 Hours	-29	
TOTAL, Hours Purchased		1,701
Price Per Hour, State Perspective		$20.
Price Per Hour, Employee Perspective		$13.

The employee simply taking the number of hours in a year and relating it to his or her cost will produce a cost of a little over $13 an hour. But from the employer's perspective the cost is a considerably higher $20 an hour. The difference lies in the two categories on Table 5, employer cash outlays that don't appear in the employees' paychecks and the time paid but not worked. A new survey sheds considerable light on both categories of cost.

Health Insurance: The average monthly state costs for health benefits of a single employee (no dependent coverage) from a survey by Workplace Economics, Inc. appears on Table 6.

The data underlying Table 6 present problems for some states. In some health insurance contracts, the rate charged for individual policies is the same as for family policies, reflecting a decision by the state to cover part of the higher costs of family coverage in the price of individual coverage. In Table 6, such a state -- Washington is an example -- will show high costs for individual coverage. Also, it should be remembered that the costs shown are state government costs. Some of the states with apparently low costs have substantial employee contributions to the costs of health coverage, while many states don't require an employee contribution for individual coverage. Nonetheless, the table reflects the wide range in costs of employee health care which the states are accepting. In general, the high spending states (total state and local spending per capita) tend also to have high costs for employee health coverage, though there are many exceptions.

Table 6: Monthly State Cost of Individual Employee Health Benefit, 1990

Rank	State	Amount	Rank	State	Amount	Rank	State	Amount
1	Alaska	$386	18	Wisconsin	$132	34	Ohio	$106
2	Washington	283	19	New Jersey	132	35	Arkansas	106
3	Oregon	236		**U.S. Average**	**130**	36	Missouri	105
4	Pennsylvania	212	20	Texas	130	37	Kentucky	103
5	Alabama	195	21	Rhode Island	128	38	Oklahoma	102
6	Massachusetts	178	22	South Carolina	121	39	Wyoming	100
7	Nevada	168	23	Utah	120	40	Illinois	100
8	Michigan	163	24	California	119	41	Florida	98
9	New Hampshire	162	25	Minnesota	118	42	New Mexico	85
10	Maine	159	26	Idaho	118	43	West Virginia	84
11	Connecticut	158	27	Georgia	116	44	South Dakota	80
12	Maryland	150	28	Indiana	113	45	Colorado	79
13	New York	144	29	Vermont	112	46	Mississippi	72
14	Arizona	144	30	Virginia	110	47	Nebraska	72
15	Montana	144	31	North Dakota	110	48	Tennessee	70
16	Delaware	142	32	North Carolina	108	49	Louisiana	60
17	Iowa	138	33	Kansas	108	50	Hawaii	48

Employee Days Off: The states are contrasted by the number of days they allow off each year in Table 7. Eight states allow six or more days above the national average. At $20 an hour, eight hours a day, six days represents nearly $1,000 a year per employee.

Table 7: Scheduled Days Off In A Year, 1990 Benefit Plans
Includes Annual Leave, Sick Leave, Personal Days, and Holidays

Rank	State	Days	Rank	State	Days	Rank	State	Days
1	Hawaii	55.0	17	Tennessee	44.0	34	New Hampshire	42.0
2	Alaska	52.0	17	Iowa	44.0	35	Arkansas	41.0
2	West Virginia	52.0	17	Maine	44.0	35	Indiana	41.0
2	Maryland	52.0	17	Nebraska	44.0	35	Oregon	41.0
5	Georgia	51.0	17	Nevada	44.0	38	Kentucky	40.5
5	Louisiana	51.0	17	Virginia	44.0	39	Utah	40.2
5	Massachusetts	51.0		**United States**	**43.9**	40	Arizona	40.0
8	Vermont	50.0	24	Florida	43.5	40	California	40.0
9	Rhode Island	47.0	24	Michigan	43.5	40	Montana	40.0
10	Minnesota	46.8	24	Ohio	43.5	40	Texas	40.0
11	New York	46.5	27	Mississippi	43.0	44	North Dakota	39.5
12	New Jersey	46.0	27	Oklahoma	43.0	45	Idaho	39.0
13	Alabama	45.5	27	South Dakota	43.0	45	Kansas	39.0
14	Connecticut	45.0	30	North Carolina	42.8	45	Washington	39.0
14	Delaware	45.0	31	Pennsylvania	42.6	45	Wyoming	39.0
14	Missouri	45.0	32	Wisconsin	42.5	49	Colorado	38.0
17	Illinois	44.0	33	South Carolina	42.2	49	New Mexico	38.0

Annual Leave And Holidays: A case can be made that state government discretion is most clearly expressed in decisions on holidays and annual leave. Not all the sick leave specified in Table 7 above is used, although most states eventually pay for unused sick leave through retirement credits or payments upon termination. Most holidays are standard in state government and the private sector, but there are some unusual ones. Massachusetts' new governor has reportedly decided to try to eliminate Patriots Day, Evacuation Day, and Bunker Hill Day. The annual leave for an employee with ten years service and number of days of holidays is shown on Table 8.

Table 8: Days Per Year For Annual Leave and Holidays
State Governments, 1990

Rank	State	Annual Leave	Holidays	Rank	State	Annual Leave	Holidays
1	Alaska	24	13	26	New Hampshire	18	12
2	Mississippi	24	10	27	Arkansas	18	11
3	Minnesota	22.8	11	28	Oregon	18	9
4	Hawaii	21	13	29	Kentucky	18	10.5
5	West Virginia	21	13	30	Arizona	18	10
6	Georgia	21	12	31	Montana	18	10
7	Louisiana	21	9	32	North Dakota	18	9.5
8	Tennessee	21	11	33	Idaho	18	9
9	Maryland	20	14	34	Kansas	18	9
10	Massachusetts	20	13	35	Wyoming	18	9
11	New York	20	12	36	Colorado	18	10
12	Nebraska	20	12	37	Illinois	17	12
13	Ohio	20	11	38	Michigan	17	12
14	Indiana	20	12	39	Wisconsin	17	9.5
15	North Carolina	19.8	11	40	South Carolina	16.25	11
16	Alabama	19.5	13	41	Utah	16.25	11
17	Florida	19.5	10	42	Washington	16	11
	U.S. Average	**18.3**	**11.2**	43	Pennsylvania	15.6	10
18	Vermont	18	14	44	New Jersey	15	13
19	Rhode Island	18	10	45	Connecticut	15	12
20	Delaware	18	12	46	Iowa	15	11
21	Missouri	18	12	47	South Dakota	15	9
22	Maine	18	12	48	Texas	15	13
23	Nevada	18	11	49	New Mexico	15	10
24	Virginia	18	11	50	California	14	13
25	Oklahoma	18	10				

Length Of Working Days: The scheduled 40-hour week is still standard for state government. But a dozen states have standard workweeks that are shorter. Workers get the best deal in Connecticut, New Jersey, and Rhode Island where the scheduled week is only 35 hours. The 37.5 hour workweek, five days at 7.5 hours, is standard in Alaska, Delaware, Illinois, Kentucky, New Hampshire, Pennsylvania, South Carolina, Tennessee, and West Virginia.

WAR AND STATE FINANCES

War Impact: State officials have been putting caveats on their revenue forecasts like "assuming no Middle East war." But what happens to states now that there is a war? There seems to be agreement on a few points.

(1) The successful termination of the war would produce significant economic stimulus because of falling oil prices and rising consumer confidence.

(2) If the war were to produce significantly higher oil prices, which experience to date suggests it will not, there would be a significant drag on economic growth.

(3) Unlike the Vietnam and Korean conflicts, the war will not produce a sudden surge of new orders for munitions or military equipment. The initial extra out-of-pocket costs are associated with relatively small specialized purchases (e.g., clothing and medicines to deal with chemical warfare), travel and fuel costs, and pay of reservists called to active duty. As a result, the inflationary stimulus of the war will be much less than previous U.S. war experiences.

Looking beyond immediate impacts is hard. As Federal Reserve Chairman Greenspan told a Congressional committee in late January, "Assessing the economic outlook is especially daunting at the present time." OMB Director Darman put it more dramatically:

> What is unusual about this situation is you have the possibility of extremely high deficits combined with a financial system under very significant stress combined with the potential for significant international destabilization. All three at once. One would be a fool not to take the confluence of those three as something extraordinarily serious to have to deal with.

The war's impact will mostly be felt through the federal budget deficit, rather than in immediate impacts of procurement. The large numbers being used for the cost of the war, such as half a billion to a billion dollars a day, won't necessarily translate directly into additions to the deficit. An unknown part of the costs will be paid by other nations. An unknown part of what is left represents costs of weapons systems that will not be replaced. OMB's current view is that the long-term outlook remains one of a decline in defense spending.

This leaves two implications for states. First, it is unlikely that there will be massive stimulus from the war. Second, the war will contribute a significant, but unknown, amount to the federal deficit. Besides the arguable impacts of this on the economy, it won't improve prospects for federal funding of domestic programs.

A presentation on the budget outlook at the National Conference of State Legislatures' fiscal chairs session, NCSL's recent budget report (The Federal Budget For 1991: Impact On The States), and the information from OMB and the Congress suggest federal fiscal relief for states cannot be expected. The deficit estimate was recently upped by $50 billion, implying new federal borrowing this year of about $3,000 for every American worker. Neither this -- nor even higher deficits from the Gulf War, more bank bailouts, or worsening recession -- will cause current year program cuts affecting states. Unlike the states, the federal government doesn't consider spending reductions when revenue drops below expectation. But there is little serious interest in spending increases for domestic programs of interest to states.

Governor Schaefer was under more pressure to deal with the impact of war on state policy than most state officials because his state-of-the-state address to the Maryland legislature was delayed 20 minutes while the audience watched the President's January 18 news conference on the Gulf War. In his speech, the governor commented:

> You are here at a very special time, really a special time. People are apprehensive. People are worried. They are worried over the economy, loss of jobs. Most of all they are worried about their loved ones and what is going to happen in the war. We must keep the ship of state sailing full sail during this critical time. It is important that we not succumb to melancholy paralysis. We must be prepared when peace is restored... We must take care of people now.

The number of National Guard and Reserve forces called up from each state isn't necessarily proportional to population. An argument can be made that a large call up is unfair by disproportionately subjecting state residents to economic hardship and the risk of battle. On the other hand, a case can be made that having a high call-up rate is desirable as indicating disproportionate numbers of state residents with appropriate skills and readiness and a tribute to state-managed Guard units. Governor Roemer of Louisiana has apparently been on both sides of this question, which most state officials haven't addressed. For what it is worth, estimates on the call-up to population ratio for the highest and lowest states are shown on Table 9.

Table 9: Forces Called For Gulf War Per 100,000 Population

Rank	State	Number	Rank	State	Number
1	Mississippi	281		**United States**	**51**
2	Wyoming	234	46	Connecticut	17
3	Louisiana	209	46	Oregon	17
4	Alabama	142	48	Idaho	11
5	North Dakota	135	49	Hawaii	4
6	South Carolina	132	50	Alaska	0

Many states have already acted to do something for those fighting in the Gulf by waiving certain tax filing deadlines. Despite the state's fiscal problems, the Massachusetts speaker and Senate president are seeking legislation that would give a state bonus of $500 to every resident serving in the Gulf and a $300 bonus to Guard and Reserve personnel called up for the crisis, regardless of where they served.

MISCELLANY

Drug Abuse Programs: The Office of National Drug Control Policy (Executive Office of the President, Washington, DC 20500) recently issued a kind of report card on state drug control activities, State Drug Control Status Report. William Bennett, then drug czar, provides an introduction which stresses the role of the states in dealing with drug abuse. The report endorses a variety of state laws. It suggests that states may be able to achieve the objectives by other means, but then says, "Each State can and should be expected to adopt the laws and policies addressed in this report, tailoring them to fit its particular circumstances." The report contains a pull-out chart showing which of the 50 states have adopted each of 18 policies. The results (summed by **Reports**) appear in Table 10.

Table 10: Number of Policies To Control Drugs Adopted, 1990

Rank	State	Number	Rank	State	Number	Rank	State	Number
1	Florida	14	16	Georgia	10	34	Idaho	7
1	Oklahoma	14	16	Illinois	10	34	Kentucky	7
3	Colorado	13	26	Indiana	10	34	Mississippi	7
3	Michigan	13	21	Delaware	9	34	Montana	7
3	Minnesota	13	21	Hawaii	9	34	Ohio	7
3	Rhode Island	13	21	Kansas	9	34	Oregon	7
7	New Jersey	12	21	Maine	9	34	South Dakota	7
8	California	11	21	Massachusetts	9	42	Arkansas	6
8	Louisiana	11	21	Nebraska	9	42	New Hampshire	6
8	Maryland	11	21	Pennsylvania	9	42	Washington	6
8	Nevada	11	21	Texas	9	45	Alaska	5
8	South Carolina	11	29	Iowa	8	45	North Carolina	5
8	Tennessee	11	29	Missouri	8	45	West Virginia	5
8	Utah	11	29	New Mexico	8	45	Wyoming	5
8	Wisconsin	11	29	New York	8	49	North Dakota	4
16	Alabama	10	29	Virginia	8	50	Vermont	3
16	Arizona	10	34	Connecticut	7			

The average state has adopted about 8.9 of these policies. There are substantial objections to some of them. For example, the policies on seizure of assets and eviction from housing raise civil liberties issues. A policy of giving seized assets to law enforcement agencies,

rather than making them general assets subject to appropriation, raises budget process concerns in many states. For example, Missouri's forfeiture law was challenged in court by a group of school districts. In December, the Missouri Supreme Court ruled that the forfeitures fell within the constitutional provision that forfeitures and fines go to the schools. {Missouri law enforcement officials can avoid the state rule by combining drug bust operations with federal officials and taking a local cut under federal law.}

Financial Institutions Regulation: Governor Sundlun has a plan for dealing with the problem Rhode Island financial institutions that haven't obtained federal deposit insurance. He is proposing a "Depositors Economic Protection Corp." which would assume the assets of the closed institutions. Preliminary estimates indicate that the corporation would have about $1.3 billion in liability to depositors and assets falling about $150 million short of covering that liability. Some of the institutions are looking for ways to preserve their autonomy.

The governor wants to delay some state payments to depositors until 1993. But depositors aren't going to like such a decision and legislators may not either. To deal with this problem, the governor is said to be considering state borrowing and/or issuance of promises to pay (scrip) to depositors. The estimated $150 million liability linked with an estimated deficit of $160-200 million in the $1.5 billion state budget to trigger a decision by Standard & Poor's to put the state on CreditWatch.

The Rhode Island case (and perhaps others to come?) suggest the ease with which state governments can ignore contingent liabilities. The Rhode Island situation was described this way in a report by the state's own regulators:

> The existing Rhode Island situation should be tolerated no longer. To allow $1 billion in deposits of some 300,000 persons to be held by financial institutions with no Federal insurance is archaic and dangerous. Some of these institutions ... are in serious financial condition and very probably insolvent. RISDIC, at best, is a highly questionable insurance fund without reinsurance and without reserves for potential losses. When the anticipated run occurs, RISDIC will be fortunate to cover $15 million -- less than 2% of the risk which it purports to insure. As stated, RISDIC will perform no better than the state-sponsored funds which recently failed so completely in Nebraska, Ohio, and Maryland. This is an inherited situation. Yet, as the Maryland experience confirms, the Rhode Island public and the financial community will judge harshly any failure to deal with it decisively and effectively.

The report was presented in 1985. So were the many accounts in **Reports** and elsewhere indicating what happened in Maryland, Nebraska,

and Ohio and what some other states did to avoid similar problems. There are four after-the-fact probes already announced in Rhode Island: (1) a group appointed by the governor to be headed by the president of Brown University, (2) a group operating under the auspices of the House Judiciary Committee to be headed by an out-of-state lawyer experienced in banking, (3) a special committee of the Senate, and (4) a probe involving ten people working for the attorney general.

Some of the other 20 states that permit credit unions to operate without federal insurance are moving to ensure that their institutions obtain federal coverage. Florida institutions are applying at the urging of state regulators. In Texas, the governor has asked regulators to take the same action. Missouri's legislature is holding hearings on a measure to require the state's credit unions to obtain federal insurance.

Six New England governors met with FDIC chairman William Seidman to express their concerns that federal regulation was unnecessarily creating a capital crunch that was damaging the New England economy. They got some assurances, but nothing specific. In his inaugural address, Governor Gregg (R-NH) called the banking crunch a greater problem than either recession or the state's budget woes.

The Middle Class Suffers, Another View Of Budget Cutting: "Are the state budget cuts being concentrated on the middle class?" An editor from U.S. News raised this interesting theme in interviewing **Reports** editor Hal Hovey, who wasn't sure of the answer at the time and still isn't.

An empirical answer to the question presumes that the beneficiaries of state spending can be identified with the same precision by which tax experts predict the burdens of taxes on various income groups. The trend in state spending has probably been toward spending for lower income groups. The big winners in spending, measured by percentage increases, have been Medicaid and corrections. The big winner in total dollar increases has been elementary and secondary education. There is room for considerable debate over what income group benefits most from these programs. If the beneficiaries are those for whom money is spent, then Medicaid recipients, prison inmates, and school children are the winners -- with lower income groups disproportionately represented in all three cases. But those paid with state dollars -- health care professionals, corrections officers, and teachers -- are middle class and above.

Probably the three state activities most clearly concentrating benefits on the middle class are: (1) higher education, (2) state aid to local government that holds down local property taxes, and (3) parks and recreation. Higher education is clearly bearing a larger share of budget cutting than its share of the budget, with some of the effect appearing as tuition increases. Quantification is harder, but local aid

appears to be bearing a larger share also. Parks and recreation is consistently impacted by across-the-board cuts, hiring freezes, and purchasing constraints that often exempt other state activities such as corrections and aid for public schools. So it is probably true that the cuts disproportionately affect the middle class. Whether this is a good result or a bad one is, of course, a value judgement.

The subject isn't discussed in most states, but Governor Weld has been talking about it in Massachusetts. He is deliberately trying to cut what he calls "middle class entitlements." His usual example is Medicaid-paid nursing home benefits for higher income persons, particularly those who keep their homes under state law, divest their other assets by giving them to relatives, and qualify for Medicaid rather than relying on their own resources or those of their families.

Pay Raises: Some states have procedures that make pay changes for elected officials between November elections and the swearing in of a new governor and legislature. By voter action in June (Proposition 112), a citizens' commission sets the pay for the California governor and legislators without any action by them. Legislators will get a pay raise to $52,500 (from $40,816) while the governor's pay goes to $120,000 from $85,000.

Florida's new governor announced that key staff aides would be getting $98,000, up about 15% from the prior administration. With the state employee pay increase this year about 3% and new taxes likely, the decision drew some criticism. In Pennsylvania, the governor gets a $20,000 raise, to $105,000 a year.

Personal Income: Like most economic statistics, the state personal income estimates are revised by the federal government after they are issued. The statistics, often before revision, are used for federal aid distributions, to calculate state tax burdens, for **Reports'** Index of Economic Momentum, and other purposes. In the December Survey of Current Business, there is an extensive discussion of why revisions are made and the impacts they have.

Research And Development Spending: State officials continue to place considerable importance on attracting R&D funds. The role of university research is viewed as having been and continuing to be substantial in states such as California, Massachusetts, and North Carolina. Looking only at total science and engineering R&D, a few states get the bulk of the money. Of a national total of $14.7 billion in FY 1989 R&D spending, universities in California accounted for $1.8 billion, followed by New York ($1.3 billion), Texas ($1.0 billion), Maryland ($922 million), and Massachusetts ($868 million). But when the data are recalculated on a per capita basis as in Table 11, some of the smaller states are doing fine.

Table 11: Per Capita Science And Engineering R&D At Universities, FY 1989

Rank	State	Amount	Rank	State	Amount	Rank	State	Amount
1	Maryland	$192.1	18	Arizona	$60.6	34	Louisiana	$42.3
2	Massachusetts	143.9	19	Nebraska	59.2	35	Virginia	41.6
3	Alaska	102.7	20	Texas	59.1	36	Indiana	40.8
4	Utah	95.4	21	Minnesota	58.9	37	Montana	40.3
5	New Mexico	89.5		**United States**	**58.6**	38	Ohio	38.3
6	Connecticut	86.3	22	Washington	56.6	39	New Jersey	36.5
7	Rhode Island	79.3	23	Oregon	56.4	40	Oklahoma	35.9
8	Vermont	75.6	24	New Hampshire	55.8	41	South Carolina	34.2
9	Iowa	75.1	25	Delaware	55.6	42	Idaho	32.8
10	New York	73.8	26	Illinois	52.7	43	Florida	29.6
11	Wisconsin	68.6	27	Michigan	52.1	44	Mississippi	29.1
12	Colorado	68.4	28	Wyoming	51.1	45	Nevada	28.3
13	Georgia	64.1	29	Alabama	51.0	46	Kentucky	22.7
14	North Carolina	63.9	30	Missouri	49.6	47	West Virginia	21.9
15	Pennsylvania	63.8	31	Tennessee	43.9	48	Arkansas	18.5
16	Hawaii	63.4	32	Kansas	43.4	49	South Dakota	17.7
17	California	61.8	33	North Dakota	43.0	50	Maine	16.2

School Governance: Illinois' sweeping attempt to reform Chicago schools by decentralizing control has run into problems. At the end of November, the state supreme court rejected the governing arrangement with its 6,000 elected members of school councils. The council members are elected by their own group -- teachers electing teachers, parents electing parents, etc. The court found that the parents are overrepresented by one-man-one-vote criteria. After considering several remedies in January, the Illinois legislature gave Chicago's mayor appointive authority in an attempt to preserve the legality of the selections. The legislature will likely revisit Chicago school governance in the 1991 session.

New York has a special state commission on school governance examining the effects of the 20-year old decentralization of New York City schools. The group is likely to recommend giving the mayor more control.

State Issues: The National Conference of State Legislatures (1560 Broadway, Denver, CO 80202) has issued its annual volume (State Issues 1991) summarizing a survey of state legislators and legislative staff on top legislative priorities in each of 18 areas such as agriculture, the arts, children, and education.

Voter Turnout: There are two sets of statistics on voter turnout. One simply relates the votes counted by election officials to population, but this method doesn't permit analysis of turnout differences by age, race, income, sex, or other personal characteristics. To learn about such differences, the Census Bureau interviews people on whether they voted, but the results don't square with counts by election officials. In addition, there are disputes over what population statistics should be related to the voting statistics. For details see a new Census publication, Studies In the Measurement Of Voter Turnout.

TECHNICAL NOTES

Budget Balancing: The shortfalls in current (FY 1991) state budgets have been compiled by the National Association of State Budget Officers from estimates of executive budget offices and by the National Conference of State Legislatures from estimates of legislative fiscal officers. The 50-state results are compared in State Budget & Tax News (Issue 1). The NASBO report included the tabulation of strategies in effect or under consideration for budget balancing shown as Table 1.

Massachusetts Budget: The Federal Reserve Bank of Boston (600 Atlantic Ave., Boston, MA 02106) study is Massachusetts In The 1990s: The Role Of State Government by Alicia Munnell and Lynn Browne. They were assisted by others on the Bank's staff including Robert Tannenwald, who summarized some of the conclusions at NCSL's fiscal chairs seminar in January.

The study suggests the "indexing" of bonds. The face value of the bond, and thus the annual interest payment, would rise with inflation. As an example, the study uses a 5% inflation rate and 2% real interest rate. Instead of paying 7% interest, the state would pay 2% on the ever escalating value of the bond. Relative to a normal bond, the plan would postpone much of the debt service cost. The Bank's staff considers this appropriate, better reflecting the timing of project benefits. The Bank's staff recognized the problem with this, but not the alternative. The problem is that interest paid by Massachusetts is exempt from federal income taxes, but the capital gain on the bonds would be taxable. The alternative is to spread debt service toward the later years of a bond issue by the schedule of maturities and interest payments. State bond issues often have level principal and interest payments like a mortgage, but other options are available.

The mental retardation study is Mental Retardation Programs: How Does Massachusetts Compare? It was published by the Pioneer Institute (1105 Commonwealth Ave. Boston, MA 02215). After heading the Massachusetts budget agency, Moscovitch headed DRI activities that provide econometric estimates used for revenue forecasting in many states.

Employee Benefits: The data in this section are from 1990 State Employee Benefits Survey which was developed by Workplace Economics, Inc. (P. O. Box 33367, Washington, DC 20033). The full survey contains 95 pages including detail on benefits, such as education plans and child care, not reported in this review. There are periodic surveys of compensation for particular state functions. An example is American Association of State Highway and Transportation Officials, 1988 Survey Of Fringe Benefits For Highway And Transportation Department Employees.

The provisions of state compensation systems are complex and in some states vary from bargaining unit to bargaining unit. For example, Maryland is not listed as one of the states with workweeks below 40 hours, but in January the governor issued an executive order requiring a 40-hour week that the attendant publicity indicated would affect 40,000 employees who work 35.5 hours a week.

To provide the summary in the text, **Reports** exercised some discretion in ignoring footnotes or adjusting data for them and in providing averages when ranges were indicated. The data on annual leave and, where it relates to longevity, on sick leave, are for an employee with ten years of service. The cost of health plans include dental plans where they are provided. The averages shown on the tables are unweighted averages of the 50 states.

Some of the states reporting a workweek shorter than 40 hours indicated that some of their employees work longer workweeks than the state average. Presumably some of these states have retained the 40-hour week for shift workers, like nurses and prison guards.

War And State Finances: The call-up data were initially published by the Omaha World Herald in early January and picked up elsewhere, including the Washington Post (1/11), which is the source of Roemer's statements on the issue.

Financial Institutions: The Providence Sunday Journal (1/6) traced the background of the Rhode Island problems, including the memorandum quoted. It was made available to the governor and the legislature.

Research and Development: The national R&D figures deal only with doctorate-granting universities, where most of the university research takes place. They come from the National Science Foundation and were reprinted in the Chronicle of Higher Education (1/16). **Reports** used 1990 population to make the calculation shown in the article.

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February 1991 (Second of Two February Issues)

COST-CUTTING THEMES

Introduction: The pressures on state budgets are producing some common budget-cutting responses. There are systematic differences between what is being done to restore balance this year (FY 1991) and what is being proposed for next year (FY 1992).

Shortfalls Common: There are at least 30 states with shortfalls in the current year that are triggering cutbacks. For next year, nearly every state's budget is tight by historical standards. Defining how many states have shortfalls is difficult because definitions of shortfalls in future budgets vary from state to state. For example, some states will define a shortfall as occurring if funds from existing taxes are insufficient to provide inflation-matching pay increases for state employees and teachers. Others won't call the situation a shortfall unless they can't afford to maintain current pay levels.

Current Year And Budget Year Cuts: The options in reducing current year spending are different from those available in the budgets for next year. School districts, cities, and counties are in the midst of their own fiscal years. Their budgets are set and many of their personnel, particularly teachers, are under contract. Often their revenues are also set by previous decisions on property tax rates. There are limits to the changes that these governments can make on short notice. These same considerations also affect state universities. This limits the size of cuts that can be made in the current year in aid for public schools, universities, and local governments. As a result, cuts have been concentrated on the state's own operations. This explains the high concentration on furloughs for state employees, freezes on hiring and purchases, and similar actions.

The lack of flexibility to make current year cuts sometimes is discovered after governors have announced cuts. When the practical problems and the strong opposition appear, the cuts sometimes aren't made. In some states, such as Maine and Michigan, the difficulties appear in the legislature. In Maryland, the governor has been dropping many of his announced cost saving measures, without legislative involvement. The latest was a 40 hour week. He previously rescinded announced layoffs of 1,800 workers. He commented, "everywhere we try to make a reduction, that's the one that cannot be touched."

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Recognition of the limits on flexibility to make current year cuts explains the strong interest in measures that aren't true spending cuts -- borrowing money from other state funds, delaying expenditures, and accelerating revenues.

Cuts In the FY 1992 Budgets: In the governors' budgets for FY 1992, there are many more options for budget balancing. The simplest strategy is avoiding increases in nearly every spending category. For most states, such a strategy avoids a tax increase if the current year budget is balanced. Revenue goes up by about the sum of predicted inflation (roughly 5%) and predicted real GNP growth (roughly 0-2% depending on the estimator). This 5-7% increase covers even double digit increases in Medicaid and corrections, which are often considered uncontrollable, leaving little or no growth in anything else. The consequences are no increase in school aid and state-supported teacher pay, no state employee pay increases, freezing aid to cities and counties often contrary to state statutes on sharing of revenue, and avoiding any new initiatives including ones like educational quality programs previously enacted. These consequences are sufficiently severe so that some states will probably see tax increases even though elected officials are now vowing to avoid them.

Specialized Cuts: There are a few special forms of cuts that are proving popular in this year's budget proposals. All are controversial. They are: (1) reducing support of local government, as discussed in the next article, (2) making college students pay a larger portion of their costs, (3) shifting from institutional care to community care in mental health and retardation programs, and (4) reexamining state provision of services usually provided by the private sector.

Making College Students Pay More: Higher tuition has been on the agenda of most states for the past several years. Fiscal problems have increased interest in tuition increases, particularly in two states, California and New York, with traditionally low tuition.

After forgoing tuition increases for many years in the state system (which includes the New York City system that was formerly free), New York moved far enough toward an increase several years ago to trigger student occupation of some buildings. The state backed down, leading to a record of seven years without increases. But in December, a tuition increase was adopted, raising the State University of New York (SUNY) tuition $300 to $1,650 a year. The governor's budget for FY 1992 would hike tuition at SUNY by $500 as well as limit a widely used state tuition assistance program. Angry student reaction is expected.

The fiscal emergency plan announced by Massachusetts' new governor would essentially eliminate state student financial aid, converting existing programs to loans. It also reflects a 33% increase in higher education tuition. The governor didn't recommend college closings, which were rumored, but did recommend that the Board of

Regents and the state Board of Education be merged into a single secretariat.

Tuition, which is a relatively recent phenomenon in California, has been rising and will rise even more under the governor's recommendations. The new state budget for the University of California involves essentially no change in state subsidy, with spending increases to come from a 20% hike in student fees. Besides objecting that there was no general fund money for faculty salary hikes or enrollment growth, the UC president pointed out that the budget was based on optimistic economic assumptions, so the university system might be faced with further financial difficulty and uncertainty.

Even if it had received the amounts it requested from the state, the University of Vermont would have raised tuition for state residents by 9.5% to $4,600 a year and out-of-state tuition by 5.1% to $13,450. But even in the context of a budget based on higher taxes, the governor recommended reducing state aid for the university by 5%. In that case, university trustees are looking for an in-state tuition increase of nearly 17%, to $4,900.

The American Association of State Colleges and Universities has tallied mid-year budget reductions affecting state institutions in at least 23 states. The group expects more before the fiscal year is completed. For FY 1992, two-thirds of the responding higher education officials expected that their state's condition would be worse than in FY 1991.

Shifting From Institutional To Community Care: Governor Weld has indicated he will be seeking legislative authority to close several Massachusetts public health and mental health institutions. Apparently he wants to get authority without naming the institutions in advance. In Maine, the governor's budget calls for a substantial scale back of state-run nursing home and mental health facilities. Oregon's budget includes closing mental health wards, but not institutions. Michigan's budget plans include closing four facilities.

Shifts won't be a money saver in New Mexico which has just lost an elaborate court case on the developmentally disabled. Unlike cases in other states involving primarily a single institution, the case recently decided in a U.S. district court involves both institutional and community care. It will produce some movement out of institutions, but will be cost increasing overall because of costly improvements in both institutions and community care.

In Pennsylvania, the state has closed the Philadelphia State Hospital and moved resources toward community programs. But there is reluctance to move further toward community care in the current budget environment. The impression is widespread that the community programs should be in place before savings occur in institutional programs. This view makes change a casualty of budget tightness.

Reexamining Services Usually Provided By The Private Sector: West Virginia has completed the process of selling its state retail liquor business, netting an estimated one-time revenue gain of $20 million. Iowa sold its liquor monopoly in the 1980s. From the end of Prohibition until these sales, 17 states were in the liquor business. In Maine, the governor proposes to close ten state-operated liquor stores. They would be replaced by "agency stores," which are franchised private operations. The Massachusetts budget proposal involves privatizing ice skating rinks, several zoos, and pension fund investment management.

There are also some shifts that don't involve movement to the private sector, but have the same budget impact. New Jersey's budget achieves balance in part by sale of $400 million of existing state highways to the turnpike authority -- a page taken from last year's New York budget-balancing book.

Long Term Perspective On Cuts: It can be argued that in selecting the kinds of cuts they are making, state officials are displaying too much of a tendency to think short term. As Vermont Governor Snelling put it in an interview at the February NGA meeting:

> We won't always have a war, and the recession won't last forever. So what are we going to do when we have some resources again? Is anyone thinking about that? No, we're all mesmerized .. by who pays for this or that and we're not thinking about opportunities for the future.

Snelling has proposed that Vermont cope with its fiscal situation by major "temporary" increases in state taxes, including both the sales and income tax.

REDUCING LOCAL AID

Introduction: Many local officials are complaining that they are bearing the brunt of budget cutting at both the federal and the state level. Their assessment of federal impacts is unquestionably accurate. Federal aid expansion is occurring in programs of aid to states, particularly Medicaid and other income-tested programs. Federal aid cutbacks have been concentrated on programs where aid is provided directly to local government. The situation regarding state aid varies from state to state. However, state decisions appear to be favoring education, and thus school districts, rather than other functions, and thus cities and counties. In states without separate school districts, primarily New England, all local aid is being affected by severe state fiscal problems.

Reducing Local Aid: The local aid reduction strategy has been particularly strong in New England. New Hampshire has already taken local aid to about the irreducible minimum. It eliminated all school

equalization aid last year except what could be funded with lottery proceeds. Massachusetts has been cutting local aid while expanding state-administered programs like Medicaid. Several advisory panels have recommended more of the same. So has a Blue Ribbon group in Connecticut. Key legislators have advised local officials to expect state aid to be frozen this year. The governors of New York and California have recommended reducing aid. In New York, the governor is suggesting a reduction in mandates. In California, the governor has suggested legislative approval of higher local taxes.

Many states have programs that relieve the burden of local taxes by providing some sort of relief directly to taxpayers. The circuit breaker, which reduces income taxes based on property taxes paid by certain taxpayers is an example. These also are budget cutting targets. Before he left office, Governor Deukmejian suggested restricting the California renters' credit, a suggestion endorsed by Governor Wilson's budget. The Maine legislature is considering proposals to cut property tax relief programs. These developments suggest that the prediction of ACIR's fiscal expert Robert Ebel -- "pressures on county budgets are likely to increase during the 1990s" -- will be true.

The Local Concern: The executive director of the National Association of Counties reflected what is happening in many states in a recent article:

> Today, the states are being forced to address their own fiscal dilemma. Expenditures for continued programs are projected to outpace revenues. In an anti-tax mood, state solutions, with a few notable exceptions, tend to mirror the actions of the federal government. There is, therefore, little or no attention given to the financial impact on local governments.

He makes the case of greater revenue flexibility for local governments. This is not just an issue of whether state law permits local sales or income taxes, but also covers a variety of fees and charges. He also observes that state laws often restrict the tax base of some taxes, particularly the property tax, because of state exemption rules. There are, of course, two sides to this story. Illinois home rule local governments set their own tax base for the sales tax. They could, and did, tax sales not taxed by the state and not each taxing jurisdiction used the same list. Responding to business complaints about administrative costs, the Illinois legislature harmonized the base. Exactly the same move for the same reasons is on the Colorado agenda this year.

Recognizing The State Role: The critical role of the state -- in granting taxing authority, in providing aid, and in establishing mandates -- was recently discussed by Tanis Salant:

Recent surveys of county officials, legislative hearings in state capitols, and a growing body of literature point to the relationship with the state as the most critical component of county viability. Insufficient revenues have become the biggest headache for county officials, and the spiraling costs of state-mandated programs, particularly those for indigent services and long-term health care, are cited as the primary cause. Those mandates are handed down without accompanying funds, or sufficient funds, to finance them, and client-driven state formulas keep costs beyond the control of counties. Unfunded state mandates are now widely recognized as unworkable, especially in light of the restricted revenue-raising capacity of counties, and many states are searching for alternatives.

The State-Local Dialogue: There is no more likelihood that states and local governments will reach agreement on their relative roles and financing than that the federal government and the states will do so. In both cases, the lower level of government speaks with many voices. So does the higher level. So legislators or the Congress may agree on a budget for assistance to the next level of government but disagree on what it represents. To some, it may represent a temporary adjustment to budget exigencies. To others, it may represent a step on the way to permanent realignment of relations among the levels of government. To increase understanding in these circumstances, some states have established intergovernmental relations commissions, often modeled after the U.S. Advisory Commission on Intergovernmental Relations.

Local Aid In Massachusetts: The governor's budget in Massachusetts proposes that local governments begin to pick up 10% of the costs of teacher retirement. Local governments would also take a cut of $271 million in aid. Massachusetts cities and towns are subject to the Proposition 2 1/2 property tax limit and have no authority to levy sales or income taxes.

Local Aid In Georgia: The Georgia budget cuts $28 million in grants to local government. The speaker told the Georgia Municipal Association, "The federal government is trying to balance its budget on the backs of state governments, and now, if we're not careful, we're going to balance our budget on your backs." The budget has triggered the expression of municipal concern that the state may be repeating a federal pattern of reducing money while increasing mandates. Concerns include: (1) environmental mandates such as waste water treatment, landfills, and drinking water, (2) the state growth planning mandates, (3) education reform measures, (4) training requirements for law enforcement personnel, (5) a legislative requirement passed last year that pubic safety and certain other municipal officials receive hepatitis shots, and (6) a mandate requiring local government to register dangerous dogs.

Local Aid In New York: Rhetoric over state and local fiscal responsibility is illustrated by the response to the governor's budget in New York. It has what can be construed as a 50% cut in state revenue sharing and a 10% cut in school aid. The local perspective, articulated by the head of the New York Conference of Mayors, is that the governor, "has given the appearance of dealing with the deficit without raising taxes, when in reality we've been forced to raise taxes repeatedly." One mayor (Olean, NY) commented, 'Washington's doing it to the state and the state is doing it to the local communities." But, he complained, "I've got no one to do it to but my taxpayers." Governor Cuomo suggested that local officials "may have to suffer a little too." He argues that it doesn't follow that local officials have to raise taxes because the state cuts aid: "I cut $4.5 billion. Why can't they?"

New Local Revenue Sources: Shifting financial responsibility to local government has triggered interest in new local revenue sources. Some choices are obvious, like the new local option sales tax in South Carolina and the additional taxing authority the New York legislature is expected to approve for New York City. Some are less obvious, such as the creation of special taxing districts for downtowns, impact fees, tax increment financing, and more. The Indiana Fiscal Policy Institute summarizes many of these with the intriguing title, "Impact Fees And Other "Designer" Taxes: Alternatives To General Taxation."

EVALUATING STATE LEGISLATURES

Introduction: In early February, the Arizona legislature made national news with the indictment of seven legislators, along with lobbyists and others. The coverage included videotaped recordings showing legislators receiving illegal contributions in return for support of legislation to legalize casino gambling. The case is another example of the sources of public concern over legislatures.

Concern With The Legislatures: Dissatisfaction with state legislatures may have reached new highs. Whether or not this is true, action based on that dissatisfaction appeared in the November elections, when limitations on legislative terms and staffing were adopted in some states. New indictments of legislators in several states add to the pressures for reform. However, there is no simple assessment of what is wrong, so there are a multitude of suggested remedies each dealing with a different perceived problem.

The Sources Of Discontent: Measuring discontent with government, or even assessing whether it has changed over time, is tricky if not impossible. There is extensive public opinion polling data on voter impressions that come from answers to questions like whether people trust institutions such as government, media, and business, or professionals such as Members of Congress and doctors. These show constantly high levels of distrust and that respondents don't believe they control these institutions. For government, this shows in polls

with many indicating they don't feel how they vote makes any difference. It also appears in election turnout, with high percentages of potential voters who don't vote.

A large segment of the population is disaffected because their policy views are so far from the prevailing wisdom that most current policy debates seem irrelevant. Those involved in state politics pay considerable attention to issues like whether taxes go up or down 5%, which tax is selected for increasing or cutting, and whether public schools get 2% or 5% more money. Issues like these are nearly irrelevant for those who believe the fundamental problem is racism, or that the water is being fluoridated, or that capitalism is the root of the nation's evils, or that government is two or three times as large and expensive as it should be. These groups can't be lightly dismissed, particularly if there is evidence that their numbers are growing. With a tax system dependent on voluntary compliance and clear evidence that no amount of spending on law enforcement substitutes for social controls, general disaffection is important, but not the subject of this article.

There is also substantial disaffection among groups who do vote, who campaign and give money to influence election outcomes, who themselves run for office or encourage others to do so, who run major corporations or organizations of employees, or institutions like universities and churches. One can't easily measure dissatisfaction by this group either, but there seems to be a lot of it. One standard poll question asks whether the country is now "off on the wrong track." When this question was asked in October, 59% responded it was on the wrong track while only 22% indicated it was "heading in the right direction."

Focus On Legislatures: Rightly or wrongly, most of the current informed criticism is focusing on legislative bodies, in particular state legislatures and the Congress. This is indicated by public opinion polls which consistently give executives, whether governors or the President, better performance ratings than the corresponding legislative body. This tends to be true regardless of what the hot issues are, what the parties' positions on the issues are, or the partisan affiliations of either the judges and those being judged.

For example, an October 1990 poll for the Council of State Governments (State Government News, January) indicated a 36% approval rating for the Congress, but a 65% approval rating for the President. A Media General-AP poll in September indicated 51% of the public believes that raising money for their next reelection campaign was more important to state legislators than passing good laws. The same slim majority thinks lobbyists have too much influence in state legislatures and 81% answered yes to the question, "Do you think state lawmakers sometimes vote the way lobbyists want them to in exchange for gifts from lobbyists?"

The California Poll in September asked a sample of Californians to indicate what kind of job they thought the state legislature was doing. The results were: excellent/good, 22%; fair, 47%; poor/very poor, 24%; and no opinion, 7%. The rankings were down from a comparable poll in 1988, but about the same as a comparable poll in 1983. A Michigan poll in October found 63% support for limitations on state legislative terms and 67% support for the statement, "It is time for Lansing politicians to step aside in order to make room for new leaders." Like other polls, it indicated support for one's own legislator accompanied by lack of trust in other legislators. An Arizona poll in August indicted 43% have little or no trust in the legislature, up from 35% in 1988.

Looking At Legislatures: Most of the academic and media attention devoted to American legislative bodies goes to the Congress. "State government has not been a fashionable field of study within the discipline" of political science "for some time," according to Alan Rosenthal, the Director of the Eagleton Institute at Rutgers. There are several recent attempts to remedy the situation, including Rosenthal's own 213-page contribution Governors & Legislatures: Contending Powers (Congressional Quarterly Press, 1990).

Rosenthal is convinced that the balance of executive-legislative relations has shifted in recent years toward the legislature. Rutgers and Rosenthal may have had something to do with this as the Eagleton Institute pushed "legislative reform" in the late 1960s and early 1970s. "Reform" in that context meant more inputs -- more staff, more time on the job by legislators by higher pay and more frequent and longer sessions. These criteria found their way into rankings of legislatures by the Citizens Conference on State Legislatures, which, Rosenthal comments, "had a profound political impact" with many legislatures trying to raise their rankings. At a Symposium on the Legislature sponsored by Eagleton and NCSL in April 1990, participants pointed to progress in the legislatures on such subjects as representativeness, capacity to deal with issues, "democratization," professionalism of legislators, and legislative roles in policymaking.

Legislative Reform In Maine: The ideas of those earlier studies are still appearing as recommendations in individual states, just as Eagleton itself brought its recommendations into states with special studies done in Arkansas, Connecticut, Florida, Maryland, Mississippi, Rhode Island, and Wisconsin. The latest example is a study that was done by Peat Marwick in its 120-page report for the Advisory Committee on Legislature Structure and Operations (staffed by the Maine Legislative Council, State House Station 115, Augusta, ME 04333). The study was the outgrowth of disputes between the Democratic-led legislature and the Republican governor over revenue estimates in late 1989 and early 1990. The original dispute is lost in history as both executive and legislative branch estimates proved much higher than actual revenues.

Peat Marwick concluded that "the Maine Legislature is generally well-managed, and benefits greatly from its commitment to a professional, non-partisan staff organization." The level and growth of legislative spending were found reasonable in relation to workload and patterns of other states. It recommended requiring a two-thirds vote of the legislators on the Legislative Council to avoid partisan votes when one party controls both houses and stalemates when control is split.

The study suggested strengthening of the legislature in "the development and administration of the legislative budget and the oversight of legislative expenditures." It also suggested improved use of legislative time. Like many journalists, legislators, and other studies, it bemoaned the legislature's tendency to adopt important legislation in the last days of the session. Many of the recommendations concern details of the relationship between the appropriating committees and authorizing committees and the establishment of appropriations subcommittees. Recommendations included ideas, such as expanding office space and an intern program, likely to increase the costs of the legislature and the number of people involved.

The report was issued last spring when the legislature was preoccupied with fiscal matters, so action on the major recommendations was saved for this year's session. The fiscal problems are even more serious than last year, so it isn't clear whether action will be taken on the report. The initial reactions varied from the Senate Minority Leader, who reiterated his view that the legislature spends too much, to an initial majority view that it was desirable to have a management study from time to time and that the recommendations would be considered in due course.

Are Legislatures Too Bureaucratic? Rosenthal devotes a section to what he calls the "congressionalization of the legislatures." He finds legislators are increasingly oriented to their jobs as a permanent occupation, and thus more interested in reelection prospects and spending time on fund-raising and dealing with constituencies and presumably less interested in the traditional work of forging legislation. He devotes a chapter to the relationships between governors and legislatures, using the sales tax on services in Florida, which was enacted and repealed, as an example of what not to do. The closing chapter is an exhortation to cooperation between governors and legislatures, stressing the point that both lose when conflicts are persistent.

The April Symposium on the Legislature identified problems in state legislatures. One was "congressionalization." Attenders rejected term limitations as a solution, but did endorse four-year terms "in order to reduce somewhat the disruptions of political campaigns to the legislative process." Another problem was campaign finance, on which the consensus was "something had to be done." But there was no

consensus on what. The group, with some dissent, also suggested states avoid adopting the initiative process.

Ethics And Legislatures: Several prominent state legislatures, besides Arizona, had major concerns develop over ethics problems in the past year. No one keeps book on the subject, so the level of concerns may or may not be higher than in the past. Regardless, it is clearly substantial.

In California, a continuing FBI investigation produced its second major conviction -- former Senator Paul Carpenter who left his legislative post to become an elected member of the powerful Board of Equalization (which administers tax laws). The conviction raised important issues for all legislatures, as the crime did not involve taking money for personal use. The California Journal (10/90) commented:

> The second shoe fell in the on-going FBI investigation of the state Legislature, and it hit the ground with a thud that should shake everyone in the state Capitol. The conviction of former Senator Paul Carpenter differed from that of Senator Joseph Montoya in a couple of significant respects. The FBI money Montoya took went into his pocket, but Carpenter put his into his campaign account. The Carpenter verdict thus shows that juries will convict even if there is no personal gain. In addition, Carpenter never voted for the FBI bill, but he did admit that he gave the undercover agents "access." If juries are willing to send legislators to jail for selling access for campaign contributions, then we doubt there is a single member of the Legislature who isn't guilty. Indeed, it has often been the proud defense of lawmakers that they *only* grant access for the contributions they get.

In New York, House Speaker Mel Miller was indicted in December on fraud charges stemming from a real estate deal.

In South Carolina, an FBI investigation has produced indictments of 10 legislators, guilty pleas by five, and promises more to come. Some of the cases involve acceptance of actual cash (not as a campaign contribution) in return for a commitment to support legislation authorizing certain pari-mutuel racing.

In Texas, the news is a grand jury investigation of the speaker. The charge is that a major law firm improperly used campaign donations, free vacations, and gifts to influence Speaker Gib Lewis and other legislators in dealing with legislation relating to tax collections. The allegations concern both vacations taken with members of the firm and the firm's payment of a delinquent tax bill owed by a gun emporium partly owned by Lewis. When the subject came up in the November campaign, Lewis repaid the money. In December, the grand jury

returned an indictment. The impact on the speaker, who is contesting the charges, is unpredictable. But the incident and Governor Richard's campaign promise to implement stricter reporting requirements for legislators and lobbyists will keep the ethics issue before the legislature this year.

Term Limits: Over 100 supporters of term limits for legislators and/or Members of Congress met in California in December under the aegis of Citizens for Congressional Reform. The Los Angeles County Supervisor who put Proposition 140 on the ballot indicated he was looking toward a measure on the 1992 ballot to limit Congressional terms. Proposition 140 placed a limit of thee two-year terms on California House members and two four-year terms on state senators, as well as mandating a 40% cut in California legislative spending. It was a major victory for term limiters, combining with victories in Colorado and Oklahoma and local elections in Kansas City and San Jose. Some conferees worried that the movement might be weakened by being endorsed by prominent political figures, citing the endorsement by the President.

A hint of the same perspective comes from syndicated columnist Neal Peirce, who in a January column commented, "Anytime you get Dan Quayle, Ralph Nader, the National Taxpayers Union and a bunch of Common Cause chapters on the same side, you know there's a loose cannon on the deck." He suggests that campaign finance reform be the priority, rather than term limits.

Campaign Finance Reform: Campaign finance reform measures passed both Houses of Congress last year, but never emerged from conference committee. There is considerable opposition by well entrenched members. Another attempt will be made this year, which will likely focus attention on the subject in the states as well.

The Outlook: Rich Jones, who works on legislative staffing and procedural issues for NCSL, addresses the future of legislatures in State Legislatures (July 1990). He concludes that the earlier reforms succeeded, citing growth to 33,000 legislative staffers, all but seven states with annual sessions, increased compensation for legislators, and more legislators viewing legislative service as a career and staying in the legislature longer. He gives these changes credit for making possible such actions as complex groundwater legislation in Arizona and other states, education reform in Kentucky and other states, and more.

On "congressionalization," he distinguishes three categories of legislatures. The first -- California, Illinois, Massachusetts, Michigan, New York, Ohio, Pennsylvania, and Wisconsin -- he calls "full-time, professional legislatures." He then defines, without listing, 17 states that have purely part-time legislatures. These relatively small states with limited traditions of government he doesn't view as likely to become full time. This leaves 25 states in between. Notwithstanding

attempts to increase legislative efficiency, he feels the challenging workload will win. So.

> When sessions convene in the year 2011 there are likely to be more full-time legislatures than in 1990, and fewer purely part-time bodies. The states in the middle of these two extremes, while not yet full-time, will likely be headed in that direction.

TAX LEVELS

Introduction: A new NCSL report provides approximations of FY 1990 state and local tax burdens for those unwilling to wait for the official Census figures. They won't appear until late this year. The approximations have the disadvantage that the local tax levels, 40% of the total, are assumed not to have changed from FY 1989 to FY 1990.

State And Local Roles As Tax Collectors: The data are a reminder of the difficulties in focusing on state taxes without looking at local ones. The states with the highest state taxes aren't necessarily the states with the highest state and local taxes. Alaska is ranked first. Because Hawaii (#2 in state taxes in relation to personal income) funds its schools entirely out of state taxes and New Mexico (#3) funds them almost entirely this way, they rank much higher than some relatively high tax states, like New York (#24), that rely on local taxes to fund much of education and welfare. The states with the lowest state taxes are well below the 6.8% of personal income taken by the average state. The lowest state tax burdens in FY 1990 were New Jersey (5.7% but with tax increases in FY 1991), Texas (5.4%), Colorado (5.2%), South Dakota (4.9%), and New Hampshire (2.7%).

The report indicates that state taxes accounted for 60.6% of state and local taxes in FY 1989. This percentage varies considerably among the states as shown in Table 1.

Factors Affecting State And Local Roles: There are conflicting forces affecting the relative reliance on state and local taxes. On the one hand, fiscal pressures on states and a desire to avoid tax increases, plus a desire in some states (e.g., Massachusetts and Minnesota) to make local officials bear the consequences of revenue raising will tend to raise the local percentage. The conflict comes with widespread desires to increase the percentage of school costs paid by the state. This is a goal in its own right in some states, a byproduct of desires for funding education reform or finance equalization plans in others. Over the past decades, the state share has been increasing.

Tax Burdens By State: In FY 1990 state and local taxes were 11.37% of personal income. This is only slightly higher than the 11.32% burden in FY 1970. The percentage tends to rise in recessions because

Table 1: Percentage of State/Local Tax Revenue Raised By State, FY 1989

Rank	State	Percent	Rank	State	Percent	Rank	State	Percent
1	Delaware	83.5%	18	Nevada	67.3%	34	Michigan	60.2%
2	Hawaii	82.5	19	Maine	66.7	35	Florida	60.1
3	New Mexico	79.7	20	Massachusetts	66.7	36	Maryland	59.7
4	Kentucky	78.0	21	Indiana	66.6	37	Connecticut	59.3
5	West Virginia	77.8	22	Wisconsin	65.3	38	Virginia	59.0
6	Arkansas	75.8	23	Iowa	63.3	39	Ohio	58.5
7	Mississippi	74.5	24	Louisiana	63.2	40	Montana	57.9
8	South Carolina	73.4	25	Tennessee	62.7	41	Kansas	57.8
9	Alabama	71.8	26	Missouri	62.2	42	New Jersey	55.8
10	Washington	71.6	27	Arizona	62.1	43	Illinois	54.0
11	Idaho	71.4	28	Rhode Island	61.1	44	Texas	52.6
12	North Carolina	71.3	29	Utah	60.8	45	Oregon	50.9
13	Oklahoma	69.7	30	Wyoming	60.8	46	South Dakota	49.5
14	North Dakota	68.3		**United States**	**60.6**	47	Colorado	48.9
15	Alaska	68.2	31	Georgia	60.5	48	New York	48.5
16	Minnesota	68.0	32	Pennsylvania	60.5	49	Nebraska	47.7
17	California	67.9	33	Vermont	60.4	50	New Hampshire	34.4

taxes rise while income lags. As a result, the FY 1991 data may show state and local tax burdens to have risen substantially in relation to personal income. The NCSL estimates appear in Table 2.

Table 2: State and Local Taxes As Percent of Personal Income, FY 1990

Rank	State	Percent	Rank	State	Percent	Rank	State	Percent
1	Alaska	18.30%	18	Michigan	11.79%	34	Indiana	10.69%
2	New York	15.40	19	North Dakota	11.64	35	Illinois	10.67
3	Wyoming	14.20	20	Nebraska	11.48	36	Kentucky	10.65
4	Hawaii	13.91	21	Idaho	11.41	37	Massachusetts	10.65
5	Minnesota	13.06		**United States**	**11.37**	38	Pennsylvania	10.59
6	Montana	12.68	22	South Carolina	11.32	39	Nevada	10.58
7	Arizona	12.53	23	Rhode Island	11.29	40	Texas	10.50
8	New Mexico	12.47	24	North Carolina	11.24	41	New Jersey	10.50
9	Wisconsin	12.42	25	Maryland	11.13	42	Mississippi	10.41
10	Iowa	12.31	26	Georgia	11.13	43	South Dakota	10.19
11	Oregon	12.30	27	California	11.12	44	Virginia	10.03
12	Utah	12.25	28	Delaware	11.03	45	Florida	10.02
13	Maine	12.19	29	Kansas	11.02	46	Arkansas	9.62
14	Washington	12.19	30	Ohio	10.97	47	Missouri	9.49
15	West Virginia	12.04	31	Connecticut	10.91	48	Alabama	9.41
16	Vermont	11.97	32	Oklahoma	10.81	49	Tennessee	9.40
17	Louisiana	11.81	33	Colorado	10.76	50	New Hampshire	8.22

HEALTH CARE PROBLEMS

Health Policy: The news from the health care front is bad on all counts. At the January NCSL fiscal chairs meeting and at the NGA February meeting, elected officials heard from experts on health care. The messages cited well-known problems such as escalating costs and the large number of persons without health insurance coverage. The speakers had ideas for what states could do as employers to attempt to control costs in their employee plans. Some had policy recommendations for federal action, but there wasn't advocacy of a state level version of universal health care.

The governor's budget in Massachusetts illustrates the impact of fiscal pressures on state activism in health care. The previously enacted universal care plan would be dropped. The state would no longer contribute to the uncompensated care pool. The theory is to cap private contributions with the state bearing the excess cost, but the governor's proposal would eliminate any cap on the contributions from health insurers. Also, the state is seeking to have its employees bear a larger share of their health care costs.

State governments, as major employers, are starting to meet themselves in their other role -- that of concern with access to health care. An example is New Jersey. As in other states, the governor found himself confronted with a tight fiscal situation with sharply escalating costs of state employee health insurance a major cost-increasing factor. Like some other governors, Governor Florio opted to constrain cost by requiring additional employee cost responsibility. From the list of greater co-payments, higher deductibles, reduced service coverage, and greater employee cost sharing in premium costs, he picked the latter, recommending employees pick up 25% of cost. But the tab of $500 for individual coverage and up to $1,200 for family coverage was so large, union officials contended, that it would force some low-paid employees out of health insurance. This would push them into the uncompensated care pool, which was covered by a 19% tax on hospital bills until the legislature failed to renew the program.

Florida and Illinois have programs to provide health insurance for individuals with health problems that would otherwise make them uninsurable. The concept was to limit the rate to about 35% above the regular rate with any excess cost subsidized. Both plans have been popular -- so popular that subsidy costs are being controlled by deviating from the original plan concept. Florida has done this by allowing the price to rise, so the special policies cost twice the regular rate in some cases, more in others. Illinois has maintained the price, but limits participation so it has developed a waiting list.

Bootstrap Financing Of Medicaid: The situation is complex, but the logic is understandable. Start with hospitals losing money on uncompensated services that could be covered by Medicaid but aren't because a state doesn't have enough money to cover the costs. Let the

hospitals put up enough money to match the federal funds. The hospitals: (1) get back their contribution and (2) get the federal Medicaid match as a net gain. Versions of this concept have been tried in Tennessee and West Virginia (and other states) and are now under discussion in additional states. A substantial portion of the Pennsylvania budget-balancing plan for the remainder of FY 1991 depends on the concept. A version has also been proposed in Arkansas.

The mechanics are esoteric for two reasons. First, federal law prohibits the transaction if done directly, but there are complex and rapidly changing interpretations that seem to permit it indirectly. Second, the hospitals putting up the money wouldn't necessarily be getting Medicaid reimbursements proportional to their contribution. In their February meeting, the governors adopted several recommendations for federal action on health care. Besides relieving the impact of Medicaid mandates, these included one to let states generate their Medicaid matching money any way they choose. If accepted by federal officials, this recommendation would encourage more states to use "bootstrap financing" for their Medicaid programs.

The math is illustrated by the proposal reportedly agreed to by hospitals and Pennsylvania authorities in January. For one patient with hospital reimbursement of $1,000, the state pays $500 and the federal government $500 (with the federal share higher in states with lower per capita income). Assuming a justifiable cost under Medicaid regulations of $1,100, the hospital would like the extra $100 and the state would like to pay it: (1) to avoid litigation, (2) to be fair to the hospital and other paying patients, and (3) to avoid pressures to pay it in other form such as an uncompensated care pool. So the hospital donates $50 to the state, which secures the $50 federal match, and pays it to the hospital. The hospital gains $50 with no loser other than the federal government. The complexity of the proposals is illustrated by the fact that Pennsylvania announced that $350 million would be gained by its agreement with the hospitals, but a hospital association spokesperson suggested the number would be closer to $200 million.

Bootstrap Financing For The Uninsured: Health care policymaking and state resource allocation are proceeding on largely separate tracks. Blue ribbon groups continue to study major health plans for the uninsured involving new taxes and new general fund spending. At the same time, elected officials and their budget staffs are considering cutbacks in existing programs in an attempt to avoid or minimize new taxes. As State Health Notes (January) summarized its survey of the states, "The irony is that even as states are grappling with major budget shortfalls that may involve deep cuts in Medicaid, many are continuing to explore strategies that would enable them to expand coverage to the uninsured."

Nursing Home Regulations: The Medicaid mandates aren't the only factor driving up the costs of state Medicaid programs. Federal 1987 nursing home reform legislation increased nursing home costs

substantially by such requirements as a full time social worker for every 120 beds and increased training for nurses aides. California has been resisting accepting the requirements, claiming the state's are substantially identical. The federal government has threatened a cutoff of Medicaid funds for the state. The state has also lost a case on the subject in a federal district court.

Provider Reimbursement Litigation: Illinois hospitals figured they would have difficulty in getting more money, "unless we have a court putting a gun at the head of state government." So they sued, timing the action the week before the November election so it wouldn't appear to be aimed at one gubernatorial candidate or the other. Both pledged not to raise taxes and one wanted to roll back a tax that already exists. The IHA is following the successful pattern of the Virginia association with litigation also occurring with hospitals elsewhere such as Colorado, Michigan, and Pennsylvania and with nursing homes.

The decision created an "immediate budget crisis" according to Kansas' new governor. A federal court invalidated the freeze on nursing home rates, forcing the state to go back to October to adjust reimbursements as well as to adjust future ones. The governor is trying to sell a major tax increase on the grounds that it will provide needed property tax relief, but some of the money will be needed to finance Medicaid and other state operations.

FINANCING THE SCHOOLS

Education Tax Increases: The concept of raising state taxes in the name of education quality improvement has lots going for it, at least in the Southern states. Kentucky and Oklahoma passed education improvement measures last year, along with whopping state tax increases in both states.

This year, Arkansas became the first state to increase taxes when a half-cent increase in the sales tax was approved by over 80% margins in both houses. The measure, along with applying the tax to used cars, which also passed, was proposed by Governor Clinton after his decisive victory in November over an anti-tax opponent who campaigned against Clinton's persistent habit of seeking higher taxes for education. The money will go into an education excellence trust fund where it will support spending from pre-school to universities.

Business leadership was an important element in Arkansas, Kentucky, and Oklahoma and could be an element in the proposal that is expected in Tennessee. In Missouri, where the governor hasn't endorsed a tax increase, Associated Industries of Missouri and the Missouri Chamber of Commerce are campaigning for a 10% increase in personal and business income tax liabilities to finance education improvements.

School Finance Litigation, Texas: The Texas supreme court has ruled that the new school aid formula violates the state constitution by discriminating against districts with a low tax base per pupil. The court set an April deadline for a new plan. This recreates last year's situation in the legislature. Fearing a showdown with the judiciary, which arguably would have rewritten the formula itself, the legislature decided to act, after a number of special sessions. Its solution was a significant increase in school aid, with emphasis on the poorer districts but not enough emphasis to create full equalization. The solution required a sales tax increase and included sharp future increases in school aid. Funding those increases represented a major pressure for a tax increase even before the recent court decision.

Equalization Litigation And "Rich" Districts: School districts with above average tax base per pupil are showing increasing interest in equalization litigation, basing their claims on the ground that their high concentration of at risk, difficult-to-educate pupils requires a greater share of state aid than they now get. Examples: Newark and other New Jersey communities, Cleveland, and New York City. Albuquerque has a special density factor to respond to such concerns, but it hasn't been funded and won't likely be in the tight budget this year. So those interested in the city's schools are supporting legislation permitting a local option tax.

MISCELLANY

Bond Ratings: Fiscal pressures are likely to take a toll in bond ratings. Nine states have AAA bond ratings from S&P: California, Maine, Maryland, Missouri, New Jersey, North Carolina, South Carolina, Utah, and Virginia. Several of these would appear likely downgrades unless they take aggressive action to balance their budgets on a sustainable basis. S&P recently put California and Maine on CreditWatch.

California's budget is balanced on many assumptions including: (1) legislative approval of many controversial elements, (2) accepting the notion that revenue should be counted when taxpayers owe it rather than when they pay it, and (3) accepting a billion in revenue based on the explicit assumption that the state's economy will improve faster than forecasters say it will. Maine's budget has similar problems, plus a large savings associated with not making scheduled payments to the state's retirement fund. Both states are increasing their operating borrowing. Virginia is balancing its budget in part by more borrowing for capital costs than in the past, but has done comparatively little in the past.

Economic Development: In an analysis relating state fiscal outlooks and municipal bond prospects, Goldman Sachs used employment growth to examine the relative performance of states. It compared the growth of employment in the 1982-87 period to more recent annual growth rates in the 1988-1990 period. The result is expressed as a

change in growth rates. For example, U.S. employment growth in the earlier period was a 2.64% annual increase. In the later period it was 2.54%, giving a change of -0.10%. Changes for states appear in Table 3.

Table 3: Change In Annual Employment Growth Rate, 1982-87 and 1988-90

Rank	State	Change	Rank	State	Change	Rank	State	Change
1	Wyoming	5.57%	18	Mississippi	0.66%	34	Missouri	-0.85%
2	Oklahoma	3.47	19	Kentucky	0.56	35	Florida	-1.12
3	Idaho	3.29	20	South Dakota	0.52	36	New York	-1.23
4	Nevada	2.67	21	Colorado	0.46	37	North Carolina	-1.37
5	Alaska	2.66	22	Illinois	0.40	38	Delaware	-1.59
6	Louisiana	2.52	23	Wisconsin	0.39	39	Maine	-1.59
7	Montana	2.39	24	Indiana	0.26	40	Virginia	-1.62
8	Iowa	1.93	25	Ohio	0.08	41	Maryland	-1.66
9	West Virginia	1.59	26	New Mexico	0.05	42	New Jersey	-1.7
10	North Dakota	1.31	27	Minnesota	0	43	Michigan	-1.8
11	Oregon	1.29	28	Pennsylvania	-0.04	44	Georgia	-2.11
12	Washington	1.27		**United States**	**-0.10**	45	Vermont	-2.17
13	Texas	1.19	29	Arkansas	-0.10	46	Connecticut	-2.28
14	Utah	1.13	30	South Carolina	-0.17	47	Rhode Island	-2.72
15	Hawaii	1.08	31	California	-0.57	48	Massachusetts	-3.13
16	Kansas	0.86	32	Tennessee	-0.75	49	Arizona	-3.43
17	Nebraska	0.78	33	Alabama	-0.85	50	New Hampshire	-5.42

This table reflects the change in trends in state economies. The losers are concentrated on the East and West coasts. They include California, Arizona, and Missouri, but no other state West of the Mississippi. There is an extremely close correlation between states below the national average on Table 3 and states experiencing major difficulties in balancing their budgets without raising taxes.

The Federal Budget: The President's budget for FY 1992 contains no funding surprises, as the level of funding for programs of interest to states was basically set by the budget agreement late last year. The budget reflects a long-term but slow phasedown of the defense budget. Excluding the Gulf War, it rises less than the rate of inflation -- remaining large enough so there really wouldn't be a "peace dividend."

In the State of the Union message, the President proposed to consolidate about $15 billion of federal programs into block grants to the states. This proposal is new, but similar proposals have been made since the Nixon Administration. The proposal is the starting point for negotiations with state officials, not the result of earlier negotiations. Getting agreement between the Administration and state officials won't be easy. At the state level there is distrust of such proposals as screens for budget cutting and concerns that block grants, once enacted, become vehicles for mandates and restrictive provisions that restore the substance of the categorical programs

supposedly replaced. In addition, with no new money in the pot, there are delicate problems in distributing money among states.

Even if a plan is produced that is acceptable to the Administration and states, Congress is a substantial hurdle. Block grants cut into the power base of Washington-based national advocacy organizations built around categorical programs and affect the perceived importance of some Congressional subcommittees. Initial indications suggest that representatives of city governments will oppose the block grants. They would incorporate the current community development block grants -- a direct federal-local program -- as well as certain housing, law enforcement, and other grants where some local officials might feel threatened that assistance would be diverted away from them. The United States Conference of Mayors announced opposition in early February.

In their February meeting, the governors did not seek additional federal general fund money. They urged spending of money from existing trust funds -- airports, highways, transit, and Unemployment Compensation -- and a moratorium on mandated increases in Medicaid spending. Adoption of the moratorium would save federal as well as state dollars, though the NGA policy does discuss federal assumption of full responsibility for Medicare-eligible persons who now receive some Medicaid support.

Governor Chiles (I-FL) spoke to the National Press Club in February with a message reflecting widespread disillusionment among governors with solutions from Washington: "The federal government should steer, not row. The Washington delivery system just doesn't work. I just want Washington to leave me alone."

Litigation: Budget-busting litigation is occurring practically everywhere. School finance equalization litigation is underway in many states and threatened in others. Responding to a state supreme court decision could produce higher taxes in Texas, while anticipating one is one factor encouraging a Tennessee tax increase. Medicaid provider reimbursement has been settled at considerable state expense in Michigan and is pending in many states including California and Illinois. Tax discrimination against interstate commerce led to revision of Arkansas taxes on used cars and, before the session is over, will likely lead to a higher gas tax and other transportation revenue measures to replace revenue from an invalidated flat tax on truckers and to pay the millions owed truckers in a settlement. Many states are still at risk for retroactive liability for refunds for federal retirees. Many corrections institutions are operating under consent decrees, a few under contested court orders, and many more in hopes of avoiding such a situation. To a somewhat lesser degree, this affects mental health and mentally retarded/developmentally disabled, with New Mexico a major example.

In Illinois, a federal court may be reaching the point of an order affecting the overall activities of the Department of Children and Family Services. The tab will be in the broad range of $10-60 million. In New York, the issue is the shelter allowance for welfare recipients.

Pension Plans: While a few states have responded to fiscal problems by reducing their contributions to retirement plans, the impact nationwide has been overwhelmed by states continuing regular contributions and high returns on pension investments in fixed income securities. The latest compilation by the Census Bureau showed major state-administered plans with assets of about $600 billion at the beginning of FY 1991. The total was up 10.6% from a year earlier. During the final quarter of FY 1990, employer contributions covered amounts paid to employees, leaving $3.1 billion in employee contributions and $13.1 billion in investment earnings to add to assets.

Tax Choices: At the January NCSL fiscal chairs meeting, there was a general discussion of tax options, with no particular consensus. Extension of the sales tax to services and the general subject of tax exemptions-tax expenditures drew considerable discussion. There was also consideration of how to make the tax system more progressive. A good summary of the prospects for federal tax simplification appears in the National Journal (1/5). Lawrence Haas concludes in "No Simple Matter" that not much change is likely anytime soon.

"Temporary" Taxes: So many tax levies are labeled "temporary" that experts and citizens alike are skeptical about the whole concept. "Temporary levies" generally become permanent, but a few do expire. A special North Dakota levy for economic development was allowed to expire in the mid-1980s. A Missouri tax to fund refunds to retirees under the Davis case is expiring on schedule. And the California quarter cent levy for earthquake relief has expired. To keep their record of session that didn't raise taxes intact, Iowa legislators let the cigarette tax rate drop by several cents in the late 1980s. But these are exceptions. Most share a common feature -- the revenue was earmarked for something specific that wasn't an ongoing cost.

In the last recession (1982-83), 17 states raised their income taxes, many on a temporary basis. In recovery during 1984 and 1985, fiscal expert Steven Gold estimates that 12 of those states rolled back at least a part of their increases. This possibility hasn't received much consideration by states in the current situation. Three possible reasons: (1) fear that the deficits are structural and thus not amenable to temporary solutions, (2) concern that the recession reflects a long-term slowing of economic growth, and/or (3) tax opponents, who might accept temporary taxes as a last resort, haven't been pushed to the last resort yet. One exception: the proposed tax increases in Vermont.

Tribal Relations: The Midwestern Legislative Conference of the Council of State Governments (641 E. Butterfield Rd., Lombard, IL 60148) recently published an assessment of issues between states and Indian

tribes, Midwestern State-Tribal Relations: The Search For Common Ground.

TECHNICAL NOTES

Cost Cutting: The assessment of state finances from a higher education perspective by the American Association of State Colleges and Universities (One Dupont Circle, Washington, DC 20036) appears in Report Of The States: 1991 Annual Budget And Fiscal Survey.

Cuts Affecting Local Government: The Thomas quote is from ACIR's Intergovernmental Perspective (Winter 1991). The entire issue is devoted to county government. Most of the important impact of state cuts is on governments best considered counties, even though counted as something else (e.g., municipalities, townships) in Census statistics. Many major cities (e.g., Baltimore, Boston, New York, Richmond, and San Francisco) have functions identical to counties in their states, which don't have the phenomenon of counties containing municipalities (e.g., Virginia) or don't follow the pattern for certain major cities (e.g., New York). The organization of states like Massachusetts and Connecticut is essentially identical to Virginia --- some large independent cities and other areas governed by a single level of government with no level beneath it. The non-cities are called counties in Virginia and towns in New England, but the administrative and fiscal relationships with the state are the same.

The U.S. Advisory Commission on Intergovernmental Relations (Washington, D.C. 20575) recently published an inventory of local ACIRs, Directory of State-Local Relations Organizations: The ACIR Counterparts. The South Carolina ACIR (P.O. Box 12395, 1333 Main St., Columbia, SC 29211) is an example of how these organizations work. In its recent report, South Carolina Local Government Capital Project & Infrastructure Needs Survey, the group inventoried local capital outlay needs. It has offered recommendations for dealing with these needs without state outlay by state authorization of project-specific local option sales taxes and relaxing certain debt limits on local government. In Aid To Subdivisions: An Examination Of State Shared Revenue In South Carolina, it recommended the simplification of local aid programs by providing local governments with a payment that would grow in proportion to the state's general fund, explicitly recognizing that the plan would force local governments to share proportionately (but not disproportionately) in revenue shortfalls affecting state government.

The Indiana Fiscal Policy Institute (251 N. Illinois St., Indianapolis, IN 46204) assessment appears in its Fiscal Policy Bulletin (September 1990).

Legislative Reform: Executive-legislative relations are somewhat different in many Southern states than in the rest of the nation. Some

of those states have weaker executive budget traditions and less gubernatorial control over appointments, but more tradition of having the governor involved in the selection of legislative leaders. North Carolina, the only state where the governor doesn't have a veto, is an interesting case study. See North Carolina Insight (12/90, NC Center for Public Policy Research, P.O. Box 430, Raleigh, NC 27602). In South Carolina, the governor used the indictment of legislators as a basis for a call for more accountability in the executive branch with more single accountable heads of state agencies and less government by board and commission, a change to what is known locally as "cabinet government."

The "wrong track" question comes from the WSJ-NBC poll reported in the Wall Street Journal (10/26). The Media General-Associated Press poll was carried on AP wires shortly after being taken in Sept. 14-24. The California Poll appeared in the Sacramento Bee (9/12). The Michigan one in Public Opinion Monitor (11/1, Public Sector Consultants, 300 S. Washington Square, Lansing, MI 48933). The Arizona Poll was reported in the Arizona Republic (9/9).

Many related ethics issues in state government are the theme of State Government News (4/90). The issue includes a debate on disclosing income tax returns and a comprehensive story on the issue of accepting gifts and trips from lobbyists. The Texas House Research Organization (P.O. Box 2910, Austin, TX 78769) has an extensive new report, Campaign Finance, that discusses practices of the states and the federal government and discusses reform options.

Economic Development: The Goldman Sachs analysis appears in the firm's Monthly Market Perspective for January.

Tax Levels: The Census Bureau has completed its data collection on both state and local finances for FY 1989. The state results are published as State Government Finances In 1989 (August 1990), complete with computations of per capita amounts and comparisons with personal income. The local results appear separately and in combination with state results in Government Finances: 1988-89, Preliminary Report (September 1990), without the per capita and personal income calculations. Those were calculated by **Reports** last fall. A final Census version will eventually appear.

The Census Bureau hasn't yet published comparative data on state or local taxes for FY 1990. The NCSL report, Recent Changes in State, Local, and State-Local Tax Levels, fills this void for states by using the Census data published in Quarterly Summary of Federal, State, and Local Tax Revenue. The report uses FY 1989 data for FY 1990 for local taxes. This assumption of constant local tax burdens is likely to be wrong, as preliminary data indicate a property tax increase of 12.9% in FY 1990, while personal income rose only 7.6%. The growth of local taxes relative to personal income is likely to appear in some states but not others.